People. Purpose. Performance.

2012 ANNUAL REPORT

CPP INVESTMENT BOARD

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The Canada Pension Plan Investment Board (CPPIB) is a professional investment management organization with a critical purpose – to help provide a foundation upon which Canadians build financial security in retirement. We invest the assets of the Canada Pension Plan (CPP); that is, those assets not currently needed by the CPP to pay pension, disability and survivor benefits.

CPPIB is headquartered in Toronto with offices in London and Hong Kong. We invest in public equities, private equities, bonds, private debt, real estate, infrastructure and other areas. Of the Fund's current total assets of $161.6 billion, about $65.1 billion is currently invested in Canada, while the rest is invested globally. Over time, our asset allocation has become increasingly international as we participate in global growth and the vitality of the world's emerging markets.

Created by an Act of Parliament in 1997, CPPIB is accountable to Parliament and to federal and provincial finance ministers who serve as the CPP's stewards. However, we are governed and managed independently from the CPP itself, and operate at arm's length from governments with a singular objective – maximizing returns without undue risk of loss. The funds that we invest belong to the 18 million Canadians who are current and future CPP beneficiaries.

Ranked among the 10 largest retirement funds in the world, CPPIB is pursuing a strategy that contributes to the long-term sustainability of the CPP. The most recent triennial report by the Chief Actuary of Canada indicated that the CPP is sustainable over a 75-year projection period, and that contributions into the Fund will exceed benefits paid until 2021. CPPIB's assets are projected to reach $275 billion by 2020 and nearly $500 billion two decades later.

The size of our assets is a key advantage, making us a valued business partner and allowing us to participate in the world's largest private equity and real estate deals and significant infrastructure projects. Scale creates investing efficiencies and capacity to build the sophisticated tools, systems and analytics that support a global investment platform.

Scale is only one of our advantages. The certainty of our assets and cash inflows means we can be flexible, patient investors, and able to take opportunities in volatile markets when others face liquidity pressures. Our distinctive investment strategy, known as the Total Portfolio Approach, ensures that we maintain target risk exposures across the entire portfolio as individual investments enter, leave, or change in value. Finally, our long investment horizon is a competitive strength. By investing for the next quarter century, not the next quarter, we can assess and pursue opportunities differently and stay the course when many cannot. From a public interest perspective, CPPIB's long-term investment stance means that patient capital is available for vital infrastructure renewal around the world as well as longer-term business models and strategies that generate value-building growth over time.

Taken together, our clarity of mission, independence, scale, certainty of assets and long horizon uniquely set us apart from other pension funds, sovereign wealth funds and other institutional investors. These advantages have earned CPPIB an international reputation and help us attract and retain a world-class investment team.

CPPIB adheres to the highest standards of transparency and accountability. Our Disclosure Policy states: "*Canadians have the right to know why, how and where we invest their Canada Pension Plan money, who makes the investment decisions, what assets are owned on their behalf and how the investments are performing.*" This Annual Report, together with our website and release of quarterly investment results, helps meet this commitment.

For more information, please visit our website at **www.cppib.ca**.

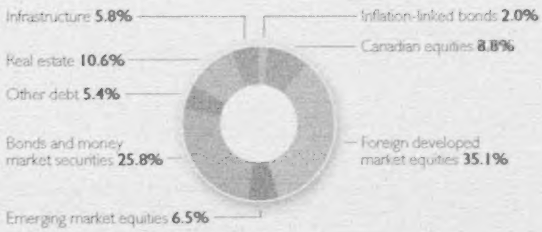
FINANCIAL HIGHLIGHTS

$161.6 BILLION
CPP FUND
AT MARCH 31, 2012

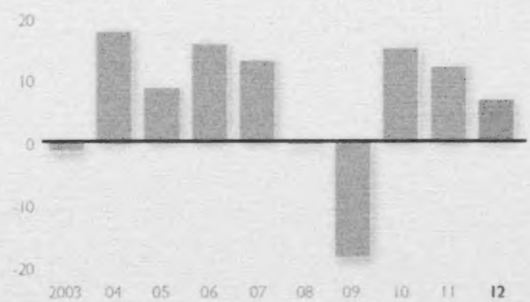
$9.9 BILLION
INVESTMENT INCOME IN
FISCAL 2012

OUR CRITICAL PURPOSE is to help provide a foundation upon which Canadians build financial security in retirement.

CPP FUND ASSET MIX
AS AT MARCH 31, 2012



RATE OF RETURN
FOR THE YEAR ENDED MARCH 31 (%)



Canada's Chief Actuary reaffirmed the long-term sustainability of the CPP throughout the next 75 years and beyond.

6.6%
FISCAL 2012
RATE OF RETURN

2.2%
FIVE-YEAR ANNUALIZED
RATE OF RETURN

6.2%
TEN-YEAR ANNUALIZED
RATE OF RETURN

'AAA' Rating

"...WELL-DEVELOPED CORPORATE GOVERNANCE AND RISK MANAGEMENT FRAMEWORKS; AND EXPERIENCED MANAGEMENT TEAM."

—*Standard & Poor's*

CHAIR'S REPORT

Robert M. Astley, Chair

In the evolution of the CPP Investment Board (CPPIB), this year has been the occasion for one of the most critical decisions, if not the most critical, that any Board of Directors has to make – the appointment of a Chief Executive Officer. In February 2012, the Board of Directors announced that the executive leadership of CPPIB will transition from David Denison, who will retire on June 30, 2012, to Mark Wiseman who will succeed David as President and Chief Executive Officer. This is the culmination of a deliberate and thoughtful process that the Board initiated in June 2009 after David advised of his intention to retire in 2012.

The Board carefully considered the merits of an internal or external candidate and engaged an external professional firm for its insights. The Board was fortunate to have the option to select an internal successor with the calibre, experience and expertise of Mark Wiseman. Mark joined CPPIB from Ontario Teachers' Pension Plan in 2005 to lead the Private Investments department, and was appointed Executive Vice-President of Investments in early 2010 to oversee all of CPPIB's public and private investment programs. For the Board, a well-qualified internal successor who understands the organization and its unique culture, and who has the demonstrated ability to execute on all aspects of its strategy, was the optimal choice. Mark's appointment ensures CPPIB continues building on the solid organizational foundation, the investment strategy and the vision that David has so ably established.

DAVID DENISON'S LEGACY

The Directors and I hold great admiration and profound gratitude for David's accomplishments over the past 7½ years. He has transformed CPPIB into a truly global investment organization by establishing an active investment strategy that is broad, diversified and disciplined; by building deep internal capabilities for the most cost-effective implementation of this strategy; and by assuring the sophisticated systems capabilities required to support increasingly complex investment programs and risk management. David's most enduring legacy at CPPIB is to have instilled a distinct culture of integrity, partnership and high performance – a culture that is firmly rooted in the minds of CPPIB employees. David's legacy will indeed be the foundation for a strong investment organization for years to come.

THE NEXT STAGE

CPPIB is now moving into the third stage of its evolution:

1. CPPIB received its first transfer of funds from government in March 1999. We had to build an investment office from the ground up to handle responsibly very substantial sums of money. Initially, the organization invested passively through external managers to replicate broad market indices. The focus was on well-diversified participation in public equity securities, while building the internal infrastructure needed to manage a rapidly growing fund.
2. In 2005, the Board appointed David Denison as President and CEO with a mandate to conduct a strategic review of CPPIB's investment approach. Based on this review the Board decided to adopt a more active investment approach designed to add value to the CPP Fund. David and the strong executive team that he was able to attract then designed CPPIB's distinctive Total Portfolio Approach and proceeded to build robust active management programs, expert teams, and the necessary systems support. The organization expanded from 70 to its current 811 employees, now including 38 in London and 23 in Hong Kong.
3. Today, CPPIB has earned a reputation as an expert and disciplined investor and a trusted long-term partner, in a broad spectrum of active management activities in both public and private markets. In the years to come we look to extend our reach, leverage our scale and build further on our structural and developed advantages as we continue to evolve as a truly global investment organization.

PERFORMANCE OF THE FUND

Fiscal 2012 saw strong results for the CPP Fund which grew by $13.4 billion to end the year at $161.6 billion with an investment return of 6.6%. Once again, this year was an active year for CPPIB as its investment teams successfully executed a number of significant global investments, as highlighted in the President's Message. A key assumption of the Chief Actuary when advising on CPP contribution rates is Fund returns averaging 4% over inflation. Over the past 10 years, returns on the Fund have compounded at 6.2% per annum. After inflation this rate is above the assumed return, and was achieved in a turbulent period marked by the financial crisis of 2008 and 2009, the ensuing damage to economic growth in many countries, and low returns on many major equity markets.

Through its active investment programs, CPPIB seeks to add value over and above the benchmark returns that could be achieved by passively investing in the CPP Reference Portfolio, as fully described on page 24. Over the six years since adopting its active management strategy, CPPIB has added value of $3.3 billion, net of all costs. CPPIB's advantages enable investments in major holdings in high-quality private assets as well as a full range of active programs in public markets. While six years is still too short a period to fully evaluate the overall investment strategy, particularly given its substantial weight in long-horizon private assets, the results to date are positive and show meaningful value-added contributions for the long-term benefit of the Fund.

SUSTAINABILITY OF THE CPP

Retirement security is at the forefront of Canadians' minds, as our average age and lifespans rise. But when looking at retirement income sources, it is important to distinguish clearly between the tax-supported Old Age Security/ Guaranteed Income Supplement programs where longer life expectancy is being reflected in raising the eligibility age from 65 to 67, and the contributions-based Canada Pension Plan with its built-in stability and sustainability. The Chief Actuary's 75-year CPP projections allow for increasing lifespans and Canada's maturing population. CPP's strong governance model, its planned stable contribution level, and the returns generated on an independently managed Fund, combine to ensure that the CPP remains on a sound footing and is sustainable.

MANAGING RISK

Another key role of the Board is oversight of the organization's management of risks. This role is critical as we operate at arm's length from governments, while remaining accountable to the stewards of the CPP and its 18 million contributors and beneficiaries. The Board actively ensures that management has identified all key enterprise risks – not only investment but also operational, reputational and strategic; and that it is diligently executing appropriate processes to address these risks.

The Board continues to update the policies and authorities within which the investment teams must work in making their decisions. The Board monitors these decisions by direct contacts with the responsible management, and through regular risk and performance reporting. The Board also annually sets the total Fund active risk limit, and approves new strategies, major transactions and external manager appointments.

Further, in fiscal 2012 the Board approved modified asset class allocations for the CPP Reference Portfolio while retaining its overall 65% equity and 35% debt orientation. Over 85% of the total risk of the Fund is represented by the CPP Reference Portfolio, and as such, its evolution will likely be the largest single influence on the long-term outcome for Fund performance.

GOVERNANCE

We believe that the governance model for CPPIB remains a world-class standard for national pension plans. This belief is based on numerous contacts with other large funds across the globe and the opinions of independent experts in the pension field. The Board has the unique opportunity to preserve and enhance this exceptional model for the benefit of Canadians, and acknowledges a deeply-felt responsibility to oversee the Fund and CPPIB with the highest standard of care.

OUTLOOK

As CPPIB continues to evolve, the Board looks forward to working with management under Mark's leadership. On a personal note, I record my deepest admiration for David and his efforts in building a formidable organization in CPPIB. Canadians will continue to benefit from his lasting legacy. The global economic and financial climate remains uncertain, which continues to trigger rapid changes in market sentiment. However, CPPIB has the strength to stay the course through this volatility, capturing opportunities that it presents while focusing on long-term objectives.

In closing, the Directors of CPPIB thank management for its outstanding leadership and thank all employees for their commitment to the ongoing success of CPPIB.

ROBERT M. ASTLEY
CHAIR

PRESIDENT'S MESSAGE

David F. Denison, President and Chief Executive Officer

Fiscal 2012 was a very active, successful and eventful year for the CPP Investment Board. Despite significant headwinds in global capital markets, we achieved a good investment return with strong value-added compared to our benchmark. We completed a large number of notable investment transactions across all our focus geographic markets. We also announced the well-planned transition of my CEO responsibilities effective June 30, 2012 to my colleague, Mark Wiseman.

INVESTMENT PERFORMANCE

The CPP Fund that we manage grew by $13.4 billion to end the year at $161.6 billion making it the 7th largest pension fund in the world. Using the projections of the Office of the Chief Actuary of Canada, the CPP Fund will likely double in size over the next 8–10 years and hence continue to rank amongst the top tier of plans globally, an attribute that is important to our competitiveness.

Investment performance produced the majority of the Fund's growth in fiscal 2012 as the 6.6% overall return generated $9.9 billion in additional assets. This was a strong result given the global market conditions we faced last year which are described in more detail later in this report. This 6.6% return also included 2.1% of value-added returns over and above those of the CPP Reference Portfolio which constitutes the Fund's overall benchmark. In dollar terms, that value-added amounts to $2.7 billion net of all of CPPIB's costs.

Annual results are relevant but investment returns over longer periods of time are of far greater importance to a multi-generational plan such as the CPP. In that regard, the 10-year trailing average annual return for the Fund was 6.2% which is above the long-term real return target of 4.0%, or approximately 6.0% on a nominal basis, that is required for CPP contribution sustainability. This is a very encouraging result especially given that this 10-year period included a series of historic equity market declines.

Fiscal 2012 also marks the 6th year since the launch of our active management strategy. Although this is still a very short period to fully assess the benefits of that strategy, CPPIB has been able to generate $3.3 billion of dollar value-added returns net of all costs incurred over that period; these additional returns are a significant benefit to CPP beneficiaries as a consequence of that active management strategy.

GROWING AND DEVELOPING TALENT

When we embarked upon our active management strategy, we knew that its most important success enablers were the quality of the people we could attract to CPPIB and the culture we would establish. Over that period of time, we have grown from 154 to now 811 highly-skilled and motivated people across our Toronto, London and Hong Kong offices. Throughout all the growth and geographic expansion we have experienced, we have nonetheless maintained and deepened the roots of our distinctive culture which is characterized by our Guiding Principles of Integrity, Partnership and High Performance. Of particular note, among the 155 recent additions during fiscal 2012 are three exceptional senior leaders at the Senior Vice-President level: Michel Leduc who leads our Public Affairs & Communications area, Mark Machin who has taken on the newly created role as President, CPPIB Asia Inc., and Eric Wetlaufer who leads our Public Market Investments programs.

In the face of this rapid growth, in some years it has been a challenge for us to devote as much time and attention to the development of the people within our CPPIB team as we would have liked. I believe we made significant strides in this respect during fiscal 2012 by incorporating individualized development plans for each person in the organization, creating a number of management and leadership development programs that were tailored to CPPIB's context, and by partnering with a number of expert external learning and development providers. Two key indicators that illustrate the positive impact of these efforts were a low regretted employee turnover rate and a high proportion of open positions filled through 116 internal promotions and 37 transfers this past year.

EXECUTING OUR INVESTMENT PROGRAMS

We had many notable accomplishments and results across the various programs within our Private Investments, Real Estate Investments and Public Market Investments areas during fiscal 2012. These are described in considerable detail on pages 43 to 59 of this report so I won't repeat them here.

I would, however, use the Real Estate Investments area's results to illustrate two very important characteristics of CPPIB's investing activities – our global reach and our internal capabilities. This past year we announced new real estate investments in Canada, the U.S., Brazil, Australia, Hong Kong, China, the U.K. and Germany. Within those were a number of particularly large and complex transactions such as the $1.8 billion acquisition of interests in 10 regional shopping centres and two redevelopment sites in the U.S. and a total equity commitment of up to $687 million for a multi-year redevelopment of the Victoria Circle area in the West End of London. The size and complexity of these transactions as well as the broad geographic span of our activities demonstrate very clearly the highly skilled global investment capabilities we have within the Real Estate area as well as across all our other investment groups.

BUILDING ORGANIZATIONAL CAPABILITIES

Our investment programs are of course central to what we do within CPPIB. However, we need many other diverse capabilities within CPPIB in order to function as a highly effective investment organization.

Many of the structures, instruments, models and strategies we use in our investing activities are inherently complex in themselves and even more so in combination with each other. As we look to the future, we certainly don't anticipate any decrease in the degree of complexity we will face. Consequently, we need to ensure that we can manage that complexity effectively which requires that we have very experienced and talented people within CPPIB armed with sophisticated systems and tools to perform the portfolio analysis and construction, investment research, economic forecasting, risk analysis, performance attribution and investment operations activities that are instrumental to our success. We have been working for a number of years to develop these capabilities; in fiscal 2012 we devoted considerable resources to this work and I believe made very significant progress. We describe this critical work in more detail in the Total Portfolio Management and Institutionalizing Capabilities sections of this report.

CEO SUCCESSION

One very notable development in fiscal 2012 was the announcement that Mark Wiseman will succeed me as CEO upon my retirement on June 30, 2012. I think that succession is one of the most important responsibilities of both a CEO and a Board of Directors. Robert Astley describes in his letter the extensive and thorough process our Board followed which I believe was exemplary. For my part, I am delighted to be able to hand the leadership reins for this organization to Mark who I have had the pleasure of working with for the past seven years. He has played an integral role in creating and executing CPPIB's strategy as well as helping to build the organization throughout that time. He has certainly earned my respect and admiration as well as that of all his colleagues, the Board and our external partners. I can think of no one better able to lead this organization and am confident he will do an outstanding job in the years ahead.

OUTLOOK

Each year the CPPIB management team prepares a business plan for discussion with and approval by the Board of Directors. Several of the priorities within the fiscal 2013 plan, such as Building Organizational Capabilities and Talent Acquisition and Development, will build upon the work done in previous years. Two new priorities identified for fiscal 2013 are to focus on the evolution of CPPIB as a global investment organization and the management of CPPIB's brand.

During this past year we have met with and studied companies who are acknowledged global leaders within a variety of business sectors. That work has resulted in a number of insights that are relevant to CPPIB as we evolve from a Canadian-based organization making investments across international markets, to one that truly operates as a global investment organization. We will be implementing some changes to our organizational structure, authorities and policies, and recruitment practices in this regard during fiscal 2013 and subsequent years.

A complementary area of focus will be to strengthen the awareness of the reputation of CPPIB across global markets. While we are well-known and have earned a strong reputation in some geographies, that is not universally the case at this point. Having a strong brand for CPPIB means that we systematically position ourselves as a global employer of choice, partner of choice and investor of choice, all instrumental in our ultimate success as a global investment organization.

CONCLUSION

It has been a great privilege for me to have been part of the CPPIB organization over these past 7½ years. The governance model and operating focus for the CPPIB that the federal and provincial finance ministers created at the time of the CPP reforms in 1997 have functioned extremely well and continue to earn accolades from similar organizations in countries around the world. We have had the benefit of strong leadership and valuable contributions from our Board of Directors right from the inception of this organization. The Board, as it has evolved over the years, has been blessed by the guidance of two exceptional Chairs in Gail Cook-Bennett and Bob Astley. We have had an extraordinary team of people within CPPIB throughout my tenure who understand that we have been entrusted with the retirement savings of 18 million Canadians and the responsibility that entails, and who work diligently every day to do the best possible job on their behalf. I would like to express my sincere thanks and gratitude to all the directors and colleagues I have had the honour and pleasure to work with at CPPIB, and I am certain the organization will continue to perform exceptionally well and fulfill its important mandate in the years ahead.

DF Denison

DAVID F. DENISON
PRESIDENT AND CHIEF EXECUTIVE OFFICER

Purpose

The Canada Pension Plan Investment Board is a professional investment management organization with a critical purpose to help provide a foundation upon which Canadians build retirement financial security. Our sole focus is on investing the assets of 18 million Canadians to generate the long-term returns needed to help keep the Canada Pension Plan sustainable over many generations.

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U.S. WESTFIELD MALL PORTFOLIO
We acquired a 45% interest in a portfolio of 10 prime U.S. regional malls and two redevelopment sites from Australia-based Westfield Group, a longstanding partner. CPPIB's equity investment of US$1.8 billion is our largest global real estate investment to date and is consistent with our strategy of investing in dominant regional malls with best-in-class partners. CPPIB is now one of the largest institutional owners of regional shopping centres in the U.S.
Team members (l–r) Marco Ding, Sharm Powell, Peter Ballon, Gabriel Tam

IMAGE COURTESY OF THE WESTFIELD GROUP

75+YEARS
DURATION OF CPP SUSTAINABILITY

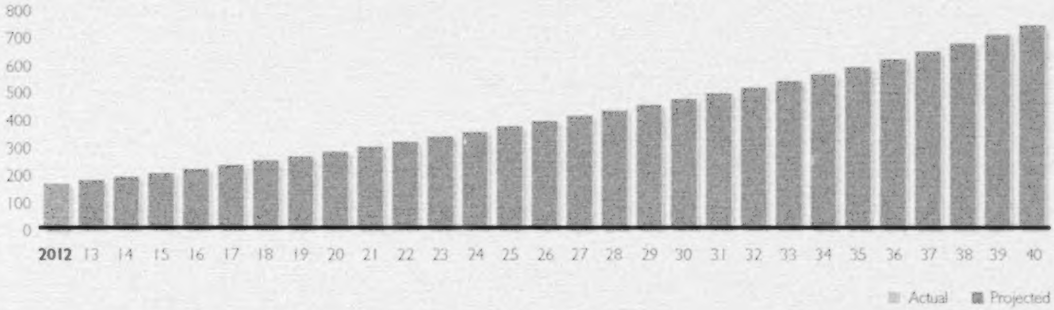
9 YEARS
BEFORE INVESTMENT INCOME NEEDED TO PAY PENSIONS

18 MILLION
NUMBER OF CANADIANS WHO PARTICIPATE IN THE CPP

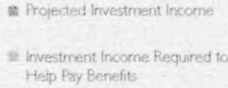
Sustainability

Ranking among the 10 largest retirement funds in the world today, we are pursuing a strategy that contributes to the sustainability of the Canada Pension Plan. The Chief Actuary of Canada's latest valuation of the CPP states that the plan, as it exists now, is sustainable through a 75-year projection period.

PROJECTED ASSETS OF THE CPP FUND
AS AT DECEMBER 31 ($ BILLIONS)



INVESTMENT INCOME REQUIRED STARTING AT 2021
AS AT DECEMBER 31 ($ BILLIONS)



The Chief Actuary of Canada has projected that CPP contributions will exceed annual benefits paid until 2021, providing nine more years in which excess CPP contributions will be available for investment. CPPIB's sole focus is investing the assets of the CPP and we have built an organization to handle the tremendous growth of the Fund as it increases in the next decade. Starting in 2021, the CPP is expected to begin using a small portion of CPPIB investment earnings to supplement the contributions that constitute the primary means of funding benefits.

KINETIC CONCEPTS, INC.

In fiscal 2012, we completed a sizeable and complex transaction with the acquisition of Kinetic Concepts Inc., a leading global medical technology company and regenerative tissue company. The investment was made alongside a consortium comprising CPPIB, Apax Partners and PSP Investment Board. The total transaction value was US$6.1 billion, making it the second largest global private equity transaction in calendar 2011. This marks the third consecutive year that CPPIB has participated in either the largest or second largest global private equity transaction.

Team members (l–r) Viviana Castro, Michael Douglas, Erik Levy, Prasanna Ranganathan

Global Perspective

As a result of our size, we seek the best possible investment opportunities anywhere, resulting in a global perspective and international presence. We are establishing CPPIB as a trusted partner in priority markets, able to source and participate in opportunities that require local presence, talent and reputation. We are proud of the global diversity in our Canadian operations and in our offices in Europe and Asia, and will continue to foster this mindset as a central feature of our success going forward.

GLOBAL DIVERSIFICATION BY REGION
AS AT MARCH 31, 2012

HONG KONG INTERLINK
We expanded our real estate portfolio in Asia with the acquisition of a 50% interest in Hong Kong Interlink, a modern, high-quality industrial facility located close to the Hong Kong airport, for C$205 million. Hong Kong is Asia's leading international transport and logistics hub and serves as a key gateway to mainland China. This investment expands our relationship with Australia-based Goodman Group.
Team members (l–r) Guy Fulton, Jimmy Phua, Rebecca Lam, Cindy Lee

159
INVESTMENT PARTNERS

32
TOTAL NUMER OF COUNTRIES IN WHICH WE HAVE PRIVATE HOLDINGS

60
TOTAL NUMER OF GLOBAL TRANSACTIONS IN FISCAL 2012

$65.1 BILLION
CANADIAN ASSETS

$59.2 BILLION
IN INVESTMENTS IN PRIVATE ASSETS AT MARCH 31, 2012

$96.7 BILLION
FOREIGN ASSETS

$797 BILLION
TRADING VOLUME IN PUBLIC MARKETS IN FISCAL 2012

CPPIB EMPLOYEES BY OFFICE

Our mission, culture and governance allow us to attract highly talented, experienced and high-performing professionals from around the world.

VICTORIA CIRCLE

This year, we invested in a major development project through a joint venture with Land Securities Group to own and develop the 5.5 acre Victoria Circle site in central London, U.K. Located opposite Victoria Station, London's second busiest transportation hub, this transformative development project will include five new buildings to be completed over the next six years that will provide over 910,000-square-feet of residential, offices and public amenities with an estimated value of over £1 billion.

Team members (l–r) Alykhan Meghani, Evguenia Vladimirova, Richard Kolb

INVESTMENT PROFESSIONALS BY DEPARTMENT

Long Horizon

An exceptionally long investment horizon gives us advantages over other investors, shaping our perspective on opportunities, risk and resolve. By investing for the next quarter century, not the next quarter, we can undertake and stay the course on investments that others cannot.

OUR COMPARATIVE ADVANTAGES

Long-Term View
The 75-year scope of the Chief Actuary's CPP projection enables us to acquire assets that offer substantial added value over time.

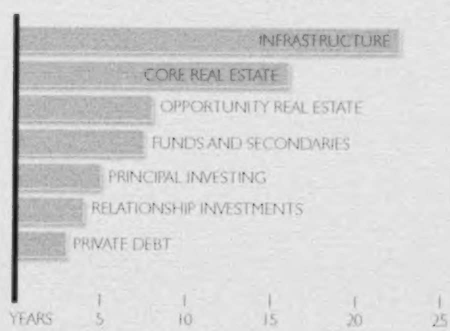
Certainty of Assets
The CPP will collect excess contributions until 2021, providing incoming cash for new investments and allowing us to build and adjust our portfolio with discipline.

Size and Scale
The CPP Fund has scale. We can invest substantially in private markets many of which are larger than their public market counterparts and are expected to offer greater returns over time.

GASSLED JOINT VENTURE

In January 2012, we closed our first infrastructure investment in Norway with the purchase of a 24.1% stake in Gassled Joint Venture for C$3.2 billion, in a consortium comprising CPPIB and affiliates of the Abu Dhabi Investment Authority and Allianz Capital Partners. Gassled owns the majority of the gas transport infrastructure on the Norwegian Continental Shelf and is a core asset for energy supply in Northwestern Europe. *Team members (l–r) Peter Adams, Rob Wall, Abigail Rayner, Andrew Darling, Andreas Koettering, Eric Szmurlo, Heather Tobin*

CPPIB AVERAGE HOLD PERIODS BY ASSET TYPE



PHOTOGRAPH BY DAG MYRESTRAND

Accountability

Our governance has been upheld as the gold standard internationally for national pension funds. Operating at arm's length from governments, the organization is guided by a highly qualified, professional Board of Directors. We believe in transparency as the foundation of trust with all our stakeholders and we embrace a high standard of accountability. Canadians can be assured that CPPIB is investing their pension dollars in their long-term interest. We are committed to keeping Canadians informed about CPPIB, our investing convictions and initiatives.

BLACKROCK

EXTERNAL PORTFOLIO MANAGEMENT (EPM)

This 24-member team maintains a portfolio of externally managed mandates that complement those undertaken internally and seek to complete our coverage of appropriate active management strategies in public markets. Expanding EPM's mandates in emerging markets is an important focus – one key fund that provides such exposure is the BlackRock Pan Asia Equity Neutral fund. This was the group's first absolute return direct fund investment in the region.

Team members (l–r) Ravin Naugth, Priti Singh, Ted Lee

INTERNATIONAL RECOGNITION FOR GOVERNANCE

THE WORLD BANK
Working for a World Free of Poverty

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT
OECD

WE BELIEVE IN TRANSPARENCY as the foundation of trust with contributors, beneficiaries, partners and other stakeholders.

Performance

Our active investing strategy and innovative approach to portfolio management enable our commitment to deliver performance levels needed to help keep the CPP sustainable over many generations. Our mission, culture and governance allow us to attract great people, resulting in a highly talented and experienced team of professionals capable of handling significant growth and complex investments. We actively foster a culture of integrity, partnership and high-performance.

HISTORICAL INVESTMENT PORTFOLIO COMPARISON
AS AT MARCH 31, 2012

2000: $44.5 billion

2012: $161.8 billion

SKYPE COMMUNICATIONS

A significant transaction this year was the sale of Skype Communications to Microsoft Corporation for US$8.5 billion. This sale yielded a significant return of approximately US$939 million for CPPIB on our initial investment of US$300 million in September 2009. If sale opportunities are sufficiently attractive, we are prepared to realize early capital gains for the benefit of the Fund. *Team members (l–r) Alain Carrier, Erik Levy, Jim Fasano, Prasanna Ranganathan*

VALUE-ADDED

$3.1 BILLION
ONE YEAR

$2.7 BILLION
ONE YEAR NET OF COSTS

$4.8 BILLION
SINCE INCEPTION

$3.3 BILLION
SINCE INCEPTION NET OF COSTS

PORTFOLIO RETURNS[1]

ASSET CLASS	Fiscal 2012	Fiscal 2011
Canadian public equities	-10.7%	20.3%
Canadian private equities	8.1%	16.9%
Public foreign developed market equities	3.6%	9.1%
Private foreign developed market equities	12.1%	19.4%
Public emerging market equities	-7.9%	11.2%
Private emerging market equities	6.6%	17.1%
Bonds and money market securities	9.5%	5.3%
Non-marketable bonds[2]	14.4%	4.3%
Inflation-linked bonds	16.3%	10.2%
Other debt	8.5%	16.3%
Foreign sovereign bonds[3]	N/A[4]	3.0%
Real estate	13.0%	13.9%
Infrastructure	12.8%	13.3%
Investment Portfolio[5]	6.6%	11.9%

[1] Investment results by asset class are reported on an unhedged Canadian dollar basis as any currency hedging takes place at the total portfolio level (except foreign sovereign bonds). Results are calculated on a time-weighted basis. Commencing in fiscal 2007, the rate of return reflects the performance of the Investment Portfolio which excludes the Cash for Benefits portfolio.

[2] Non-marketable bonds were previously aggregated within bonds and money market securities.

[3] Returns for foreign sovereign bonds include the impact of currency hedging.

[4] A return for foreign sovereign bonds is not shown for fiscal 2012 as the strategy existed for less than one year.

[5] The Investment Portfolio return in fiscal 2012 includes a $129 million loss from currency hedging activities and a $127 million gain from absolute return strategies, which are not attributed to an asset class.

$59.4 BILLION

CUMULATIVE INVESTMENT INCOME FOR TEN-YEAR PERIOD ENDING MARCH 31, 2012

$17.7 BILLION

CUMULATIVE INVESTMENT INCOME FOR FIVE-YEAR PERIOD ENDING MARCH 31, 2012

CPPIB has been externally recognized as an industry-leading private equity and real estate investor in 2011.

These awards include:

- Canada's Venture Capital and Private Equity Association (CVCA) Dealmakers Private Equity Award for the acquisition of Kinetic Concepts, Inc.;
- Private Equity Real Estate Magazine named CPPIB as North American Institutional Investor of the Year; and
- Private Equity International Magazine named CPPIB as North America Direct/Co-investor of the Year.

$9.9 BILLION

INVESTMENT INCOME IN FISCAL 2012

TOTAL FUND RETURNS

6.6%

FISCAL 2012 RATE OF RETURN

2.2%

FIVE-YEAR ANNUALIZED RATE OF RETURN

6.2%

TEN-YEAR ANNUALIZED RATE OF RETURN

GLOBAL INVESTMENTS: KEY TRANSACTIONS IN FISCAL 2012

VANCOUVER OFFICE PROPERTIES
Vancouver, BC, Canada
C$115 million
50% interests in two prime office properties in downtown Vancouver

GENIVAR INC.
Montreal, QC, Canada
C$80 million
Investment in engineering services firm, GENIVAR, through a private placement

GENIVAR

99¢ ONLY STORES
CA, USA
Total equity value of approximately US$1.6 billion
Partnered with Ares Management to acquire discount retailer *99¢ ONLY* Stores

KINETIC CONCEPTS, INC.
San Antonio, TX, USA
Total purchase price: US$6.1 billion
Second largest global private equity transaction in calendar 2011 to acquire leading global medical technology company

KCI

RBC WATERPARK PLACE,
Toronto, ON, Canada
50/50 joint venture with Oxford Properties to develop major office tower in downtown Toronto

10 EAST 53RD STREET, NYC, NY, USA
Total asset value: US$114 million
Acquired 45% interest in a high-quality office property in Manhattan

MAYFLOWER PARTNERSHIP
Boston, MA, USA
US$350 million
A portfolio consisting of 13 regional malls located in New England

U.S. PORTFOLIO OF MALLS
CA, WA, MD, USA
US$1.8 billion
CPPIB's largest real estate investment to date in portfolio of 10 regional shopping malls and two redevelopment sites

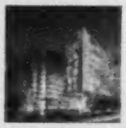
BRAZILIAN SHOPPING CENTRES
Rio de Janeiro, Salvador, Brazil
Botafogo Praia Shopping: C$40 million
Shopping Iguatemi Salvador: C$85 million
Investments in 2 Brazilian retail assets alongside experienced local partners

U.S. MULTI-FAMILY INVESTMENTS
Boston, MA
Washington DC,
Los Angeles, CA
San Jose, CA
Seattle, WA,
USA
More than US$300 million
CPPIB's first direct entry into U.S. multi-family sector

GASSLED JOINT VENTURE, Norway
Total transaction value: C$3.2 billion
CPPIB was part of a consortium to acquire a 24.1% stake in Gassled, a gas transport infrastructure in Norway

CentrO SHOPPING CENTRE
Oberhausen, Germany
€270 million
50% interest in CentrO Oberhausen, a premier super-regional shopping and leisure centre in Germany

VICTORIA CIRCLE DEVELOPMENT
London, UK
Formed 50/50 joint venture with Land Securities in transformative project in London's West End with estimated value of more than £1 billion



GOODMAN CHINA LOGISTICS HOLDING, China
US$250 million
Increased our equity commitment in joint venture with Goodman Group to own and develop logistics assets in Mainland China

HONG KONG INTERLINK
Hong Kong
C$205 million
CPPIB's first direct real estate investment in Hong Kong to acquire an industrial facility

JAPAN DEVELOPMENT FUND,
Tokyo, Japan
US$250 million
Investment to develop and hold modern logistics facilities in Japan alongside Global Logistic Properties

NORTHLAND SHOPPING CENTRE
Melbourne, Australia
A$455 million
50% joint venture interest in super-regional shopping centre

SENIOR MANAGEMENT TEAM

(l–r)

ANDRÉ BOURBONNAIS
Senior Vice-President and Head of Private Investments

BENITA M. WARMBOLD
Senior Vice-President and Chief Operations Officer

MARK G.A. MACHIN
President, CPPIB Asia Inc.

JOHN H. BUTLER
Senior Vice-President, General Counsel and Corporate Secretary

DONALD M. RAYMOND
Senior Vice-President and Chief Investment Strategist

DAVID F. DENISON
President and Chief Executive Officer

MARK D. WISEMAN
Executive Vice-President, Investments

GRAEME M. EADIE
Senior Vice-President, Real Estate Investments

SAYLOR MILLITZ-LEE
Senior Vice-President, Human Resources

NICHOLAS ZELENCZUK
Senior Vice-President and Chief Financial Officer

ERIC M. WETLAUFER
Senior Vice-President and Head of Public Market Investments

MICHEL R. LEDUC
Senior Vice-President, Public Affairs & Communications

KEY OPERATIONAL HIGHLIGHTS

1. EXECUTING OUR INVESTMENT PROGRAM STRATEGIES

Continue to focus across all investment departments to refine and expand our investment programs and capabilities as a global investment organization

- Broadened the scope of all active programs which must meet the tests of scalability, meaningful value-added contribution and operational efficiency. Continued to strengthen our investment teams by adding 74 investment professionals across our three offices.
  1. Extended the scope of several programs in Public Market Investments, including Short Horizon Alpha, Global Tactical Asset Allocation and External Portfolio Management.
  2. Committed $8.9 billion in Private Investments including the growth of our private debt portfolio to $4.7 billion in the three years since inception.
  3. Committed $7.1 billion in Real Estate Investments including expanding the private real estate debt program established at the end of fiscal 2010 by $1 billion.
- Implemented an asset management function focused on adding value through more active involvement in the governance and management of our direct private equity and infrastructure assets.

2. BUILDING SCALE IN EMERGING MARKETS

Strengthen our investment footprint in key emerging markets with a focus on Asia and Latin America

- Appointed a President, CPPIB Asia Inc. based in our Hong Kong office, to lead the development of CPPIB's investment strategy in the Asia Pacific region.
- Established a separate Real Estate Investments group in Asia headed by a newly-appointed Managing Director, Real Estate Investments based in Hong Kong to focus on direct investment opportunities in that region.
- Created a dedicated group to coordinate our investment activities in Latin America and develop a comprehensive investment and resourcing plan across all investment areas.
- Emerging markets assets in the CPP Fund grew from $8.7 billion to $12.5 billion during the year and we announced an additional $1.14 billion infrastructure investment in Chile shortly after year end.

3. BALANCING SCALABILITY AND COMPLEXITY

Focus on creating sustainable and scalable processes across the organization to effectively manage the growth of the CPP Fund

- Continued to expand the internal technology and operational capabilities that were in-sourced in 2010 to achieve efficient end-to-end handling of private and public markets transactions, enhanced reporting and analysis of investments, effective internal business controls and cross organizational use of a single data platform.
- Implemented a simplified framework for managing risks across the entire Fund along with standardized performance measurement processes to permit comprehensive analysis of CPPIB's active investment programs.
- Developed capabilities for a more dynamic approach to funding our private assets which will both reduce active risk and enhance returns going forward.

4. DEVELOPMENT AND CONTINUITY OF LEADERSHIP AND TALENT

Continue to strengthen our leadership team and introduce programs that focus on developing management talent and capabilities

- Added 155 people during the year including three new members of the Senior Management Team and 27 Vice-Presidents and Directors across investment departments, TROT and Finance.
- Launched customized development programs for managers, emerging leaders and high-potential talent to improve their effectiveness, advance their careers and ensure that we develop internal successors for critical roles.
- Our London and Hong Kong offices each grew by approximately 50% to deepen our investment capabilities in those regions.

This Annual Report contains forward-looking statements reflecting management's objectives, outlook and expectations as at May 10, 2012. These statements involve risks and uncertainties. Therefore, our investment activities may vary from those outlined in these forward-looking statements.

The following information provides analysis of the operations and financial position of the Canada Pension Plan Investment Board and should be read in conjunction with the Financial Statements and accompanying notes for the year ending March 31, 2012. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

All generations – young and old alike – deserve to have confidence that the CPP can be sustained and will be there for them when they need it. *Consultation paper for 1996–97 CPP reforms*

Canada's population is growing but it is also aging. Having sufficient income in retirement is an increasing concern for many Canadians. While not designed to be the sole source of retirement income adequacy, the Canada Pension Plan (CPP) is an important element in retirement security for millions of Canadians.

Benefits paid by the CPP can be sustained by only two sources: future contributions by Canadians and investment returns of the CPP Fund. The Canada Pension Plan Investment Board (CPPIB) is responsible for investing the CPP Fund's assets. These assets belong not to governments but to the CPP's contributors and beneficiaries; CPPIB invests on their behalf. The following discussion and analysis explains our mission, describes our investment strategy and results, and looks ahead to the future.

OUR MISSION

CPPIB was established to be a professional, independent organization with a singular objective – to generate the investment returns that help support CPP's sustainability over many generations. Before CPPIB's formation in 1997, the CPP Fund held only non-marketable federal, provincial and territorial bonds. At that time, they were valued at $36.5 billion. In establishing CPPIB, the intent of the provincial and federal finance ministers, the CPP stewards, was to harness the power of capital markets by creating a diversified portfolio like those of other large Canadian pension plans. But unlike many pension plans, the CPP's financing is not designed to retain investment assets sufficient to fully fund all accrued benefits for contributors and beneficiaries. Under the CPP's funding strategy, the Fund is expected to cover 20–25% of the projected value of accrued benefits. Future contributions will cover the remaining 75–80%.

Our governing legislation is the *Canada Pension Plan Investment Board Act*. This Act sets no geographic, economic development or specific investment requirements. It directs us to invest "...with a view to achieving a maximum rate of return, without undue risk of loss, having regard to the factors that may affect the funding of the Canada Pension Plan." In carrying out our mission, we aim to continually develop, execute and enhance the investment strategy that, balancing prospective risk and reward, we believe will have the greatest positive impact on the long-term sustainability of the CPP.

We define sustainability to mean:
> Providing the lifetime, inflation-indexed benefits as currently defined; while
> Maintaining the current level of earnings-based contributions paid by employees and employers.

In December 2011, the CPP stewards confirmed that the CPP is on solid financial footing at the conclusion of their triennial review.

Every three years, the Chief Actuary of Canada reviews the level of contributions required for CPP sustainability over the next 75 years. The most recent review, conducted as at December 31, 2009, concluded that, despite the difficult economic and investment environment, the CPP can maintain its currently legislated contribution rate – 9.9% of covered earnings, shared equally between employees and employers. The review took into account that, even though the numbers of contributors and their earnings are expected to grow steadily, the ratio of pensioners to employed workers will rise as baby boomers retire. These and many other assumptions underlie the review's conclusion. For us, the key assumption is that the CPP Fund's annual investment return, net of expenses, will average four percentage points above the rate of inflation. This 4.0% real return is an average over the review's 75-year horizon. Recent experience has again shown that, even in a well-diversified portfolio, returns can fluctuate widely from year to year. Longer-term returns are

also uncertain, but the averaging of "up" and "down" years narrows the range of the annualized performance. While investment returns are important, economic and demographic factors such as real earnings growth, fertility and longevity will collectively have a greater impact on the sustainability of the CPP.

History and expert opinion indicate that the returns required for CPP sustainability, all else being equal, can be achieved only by taking a measured degree of investment risk through exposure to equities and other asset classes that do not carry fixed returns. We further believe that additional value can be generated through scalable active management programs. Our challenge, as disciplined investment professionals, is to rigorously and continually evaluate prospects for gains against their degree of short-term volatility and long-term uncertainty, analyze how diversification may or may not improve the risk/return balance, and construct the optimal total portfolio of programs to grow the Fund.

INDEPENDENT DECISION-MAKING

Canadians have demonstrated their willingness to safeguard the CPP through their contributions, and expect their pension fund to remain free from political interference or control. During the 1996–97 CPP reforms, the federal and provincial finance ministers responded with carefully written legislation. CPP Fund assets cannot be used for any purpose other than paying CPP benefits and administering the plan and Fund. The legislation also provides a framework under which CPPIB operates at arm's length from governments. Fund capital is deployed solely on investment considerations for the long-term benefit of the Fund.

The CPP Fund is not a sovereign wealth fund, which is a government-owned pool that may be deployed for economic development or for other governmental objectives. Unlike these funds, CPP assets belong only to the plan members, and are strictly segregated from government accounts. Our governing legislation protects CPPIB from political intervention, and our governance structure is recognized around the world as a leading practice for national pension funds.

CPP members can take comfort in the continuity of the 1996–97 reforms because our governing legislation is more difficult to change than the Canadian Constitution. Amendments require agreement by the federal government plus two-thirds of the provinces representing two-thirds of the population. Constitutional change requires consent from two-thirds of the provinces representing half of the population.

To maintain the public's trust, our independence in decision-making is balanced with public accountability. We maintain a high degree of transparency. This includes timely and continuous disclosure of our results and investment activities.

OUR COMPARATIVE ADVANTAGES

CPPIB seeks to earn investment value for Canadians by maximizing the benefits of three major structural advantages inherent in the nature of the CPP, and three developed advantages that result from choices that we have made.

THE STRUCTURAL ADVANTAGES

> By its nature, the CPP has an exceptionally long investment horizon. CPPIB can evaluate investment decisions over a more extended time frame than most other investors. We are not compelled to take the short-term actions forced on many other market participants by their business imperatives or legislated funding requirements. In essence, we can benefit from short-term market dynamics, but we are not driven by them. We can exercise the patience required for the true long-term investor to reap the associated rewards.

> There is a high degree of certainty and stability to the Fund's asset base. The Fund is not subject to redemption requests, nor is there any need to liquidate investments for benefit payments in the foreseeable future. CPP contributions will likely exceed benefit payments until 2021. Given this highly predictable source of funds, and the high degree of liquidity we maintain, we can make major new investments whenever we identify good opportunities.

> The CPP Fund has the advantage of scale. We can invest in private markets and proprietary public market strategies around the world that are expected to offer greater returns over time. While maintaining a high degree of diversification, we can undertake large individual transactions for which few others can compete. Scale also makes it economical for us to develop superior investment technology and operational capabilities.

Scale can have disadvantages, though. Some attractive opportunities must be rejected as too small to make an appreciable contribution to overall returns. Some programs may have insufficient capacity to have a meaningful continuing impact as the Fund grows. And our public market trading could be large enough to adversely affect prices unless we tread carefully.

THE DEVELOPED ADVANTAGES

> As a global investment organization, we have built a world-class investment team with expertise that is both broad and deep. High-calibre professionals from many countries are attracted, not only by our size and growth, but also by our singular focus on investing and our distinctive corporate culture. This culture is deeply rooted in ethical conduct, teamwork and high performance standards. While the continuing global economic turmoil has forced many financial organizations to downsize, we have been able to focus on the long term and add exceptional talent.

> We benefit from partnering with top-tier external specialists through relationships that go beyond the typical client/supplier dynamic. These experts offer CPPIB access to many opportunities as well as in-depth analysis and experience. From their perspective, CPPIB is well-equipped to act as both a highly knowledgeable investor and a reliable, disciplined partner.

> Our Total Portfolio Approach, described on page 30, enables us to manage our targeted risk exposures in a way that is both more flexible and more precise than traditional asset class-based approaches. The contributions of each investment and strategy to the total portfolio are continuously assessed to minimize unintended risk exposures that do not carry commensurate expected returns.

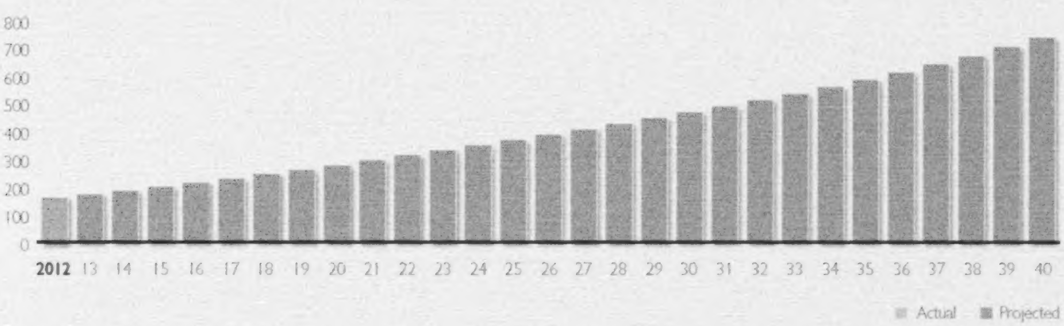
No single advantage is unique, but collectively they reinforce one another to provide a powerful platform. They provide us with a different perspective and greater scope than many other investors and funds.

DEVELOPMENT OF THE CPP FUND

As noted, the Chief Actuary of Canada has projected that CPP contributions will exceed annual benefits paid until 2021. Starting then, the CPP is expected to begin using a portion of investment earnings to supplement the contributions that form the primary means of funding benefits. Assets of the Fund, as projected under the Chief Actuary's demographic, economic and capital markets assumptions, are shown below.

PROJECTED ASSETS OF THE CPP FUND

As at December 31 ($ billions)



CPPIB's sole focus is investing the assets of the CPP. The Chief Actuary has projected that the CPP Fund will reach about $275 billion by the end of 2020. We have built, and will maintain, a professional investment organization capable of handling this substantial growth.

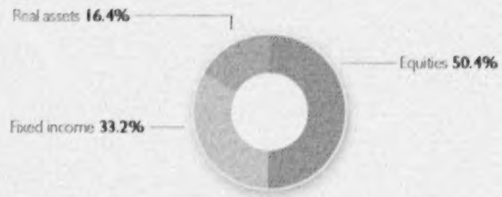
OUR INVESTMENT STRATEGY

When CPPIB began receiving cash flows from the CPP in 1999, the existing portfolio was entirely in non-marketable government bonds. According to the consensus of experts, government bonds alone are not likely to produce sufficient future returns needed to help sustain the CPP over the long term. As a result, net cash inflows were first invested in public equities, in line with the market indices. We began to diversify into private equity in 2001, into real estate in 2003, and into infrastructure in 2004. In 2003, we internalized responsibility for managing the index-based portfolios.

HISTORICAL INVESTMENT PORTFOLIO COMPARISON

2000: $44.5 billion

2012: $161.8 billion



In fiscal 2007, CPPIB launched a new active investment strategy. This approach capitalizes on our comparative advantages to achieve returns above those available from passive investing in public markets. If we generate significant value-added over a long period, and best estimate actuarial assumptions turn out as projected, the finance ministers who act as CPP stewards will be able to retain an additional margin of safety, reduce contribution rates or increase benefits. For example, using current actuarial assumptions, the current 9.9% contribution rate could be reduced to 9.65% if we deliver long-term additional average annual returns of 50 basis points (0.50%) after all costs, over the 4.0% real return assumptions for the long term by the Chief Actuary. This would save employees and employers combined, approximately $1 billion a year at current earnings levels.

CPPIB now invests globally across a wide range of asset classes in both passive index-weighted investments and through active management. Three principal elements constitute our overall investment strategy:

1. **CPP Reference Portfolio:** a low-cost, low-complexity portfolio of public market investments that can reasonably be expected to generate the long-term returns needed to help sustain the CPP at the current contribution rate.
2. **Value-Adding Active Management:** the range of public and private market investment strategies we employ to add value, after all costs, over the CPP Reference Portfolio returns.
3. **Total Portfolio Approach:** our method of constructing the portfolio to ensure that planned risk exposures at the total portfolio level are maintained as individual investments enter, leave or change in value.

These elements are implemented in accordance with the *Statement of Investment Objectives, Policies, Return Expectations and Risk Management* that is available on our website. Also, we assign responsibilities and assess results for the total portfolio and each active program in accordance with our Risk/Return Accountability Framework (discussed on page 32).

1. CPP REFERENCE PORTFOLIO

The CPP Reference Portfolio is the foundation of our investment strategy for the Fund. With reasonable long-term expectations, it is believed to be capable of providing the returns anticipated by the Chief Actuary for CPP sustainability. As a simple, low-cost, diversified and readily investable alternative, it forms the basic yardstick for our active strategy. Two primary considerations drive the design of the CPP Reference Portfolio:

i. It recognizes the perceived risk tolerance of the CPP stewards by incorporating no more risk than needed to generate the returns required to help sustain the plan; and
ii. It takes into account the factors affecting the CPP's net liabilities – future benefits less contributions.

To be a simple, low-cost alternative, the CPP Reference Portfolio comprises only public market asset classes. These classes are represented by broad indices that can be readily replicated at minimal expense. The allocations cover much of the global public stock and bond markets, but are limited where necessary to ensure sufficient liquidity for CPPIB to trade without significant market impact.

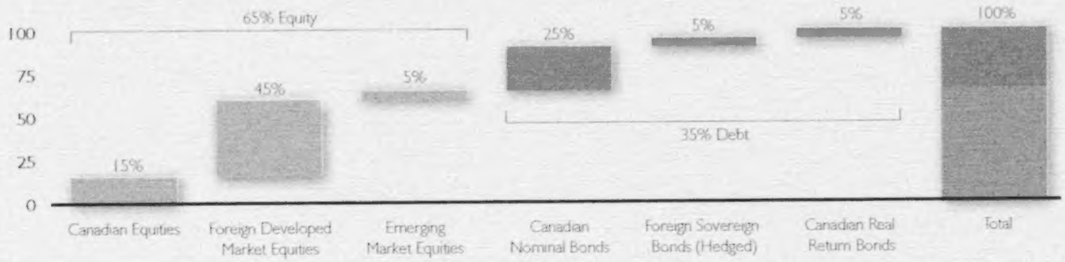
The CPP Reference Portfolio accounts for the dominant component of risk in the total portfolio. It provides a clear benchmark for total portfolio returns against which management is held accountable. Further, the constituents of the CPP Reference Portfolio and their market weights form the actual holdings in the Fund – except to the extent that they are sold to finance the purchase of other investments in our active programs. CPP Reference Portfolio components thus fulfill another accountability function. The foregone returns on assets sold to fund other purchases represent a base against which we evaluate long-term returns from the active investments that replaced them.

The asset allocation of the CPP Reference Portfolio is reviewed after the Chief Actuary of Canada completes the triennial CPP Actuarial Report. For this purpose, we have developed sophisticated techniques to model the range and likelihood of future outcomes for CPP contributions, benefits payments and investment returns. Our model is consistent with the Chief Actuary's demographic assumptions and provides a year-by-year projection of the CPP's financial condition over 75 years with triennial actuarial assessments. It has been formally reviewed and endorsed by leading external experts. Under specified scenarios, a set of assumptions for inflation, capital markets returns, earnings growth and other factors, the model simulates possible outcomes and derives the optimal portfolio mix of eligible asset classes. This is the portfolio expected to minimize the risk of having to reduce benefits or increase contributions to sustain the CPP. The model gives greater weight to nearer-term potential adjustments, taking the portfolio's evolution into account to reflect the increasing maturity of the CPP.

The future can be very different from even the best forecasts. Accordingly, we select a number of candidate asset allocations and compare each to the optimal portfolio mix for each scenario. From these results, management recommends to our Board of Directors the CPP Reference Portfolio that we believe will meet the sustainability objective most consistently across a variety of economic and market circumstances.

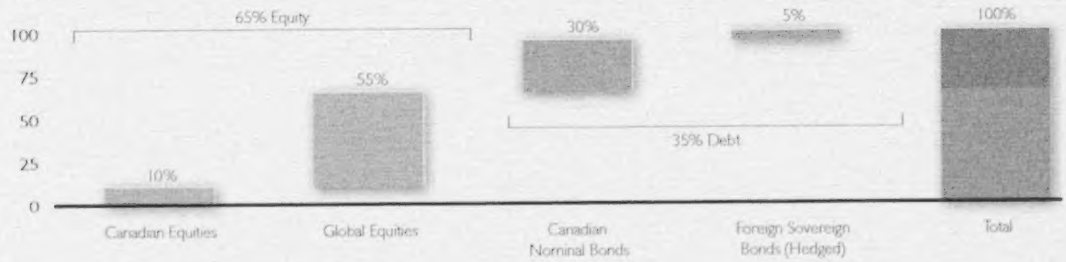
CPP REFERENCE PORTFOLIO

As at April 1, 2011



CPP REFERENCE PORTFOLIO

As at April 1, 2012



We reviewed the CPP Reference Portfolio during fiscal 2012 and, with Board of Directors' approval, transitioned to the following allocations effective April 1, 2012:

1. The allocation to Canadian equities has been reduced from 15% to 10%. This continuing reduction (from 25% when the CPP Reference Portfolio was introduced at April 1, 2006) recognizes the size and trading volume limitations of the Canadian equity market relative to the CPP Fund's current and expected growth. The new allocation still represents 15% of total equities, which is approximately three times Canada's weight in global public equity market capitalization.
2. Emerging markets equities have been combined with developed foreign markets into an overall 55% Global (ex-Canada) equities allocation. This simplification recognizes the rapid growth of emerging economies and markets, and their increasing integration into the global economy. The combination will allow the emerging markets allocation to evolve organically rather than as a somewhat arbitrary triennial decision. Effectively, this increases the prior 5% allocation to emerging markets equities to about 6.6% at April 1, 2012.
3. The explicit allocation to Canadian real return bonds, formerly 5%, has been eliminated, thereby increasing the allocation to Canadian nominal bonds (all governments) from 25% to 30%. As noted in last year's report, our research shows that the earnings-related nature of CPP contributions slightly more than matches the inflation sensitivity of indexed CPP benefits. This eliminates the need for Fund assets to also provide inflation risk protection, and thereby saves its associated cost.

The revised CPP Reference Portfolio allocations were adopted by the Board of Directors in November 2011. A phased transition was then undertaken from December 2011 through March 2012 to move the weightings of investments of the Fund to these revised allocations.

The continued 65% weighting of total equity exposure reflects CPPIB's ability to accept shorter-term economic and capital markets risks in order to seek commensurately higher returns over the long term. Global equities – a category that includes both emerging and developed markets – represents the most diverse and balanced range of economic and corporate activity that is readily accessible for the Fund.

The 35% weighting of debt provides more stable asset values and high-quality cash flows. This includes a substantial component (currently 14.6% of the Fund) of legacy Canadian federal, provincial and territorial bonds inherited or rolled over from the 1997 transition. The size of the Canadian bond market is a limiting factor, so G7 sovereign government bonds were added to the CPP Reference Portfolio in 2008.

Currency Hedging

Most developed, and many developing, countries have adopted an open regime for their currencies. Exchange rates can then fluctuate significantly, although central banks may intervene to stabilize excessive movements. Many pension funds use partial or full hedging programs to protect their assets from adverse currency moves. Hedging, however, comes at a financial cost. Also, cash must be tied up or generated quickly to meet obligations on the hedging contracts when the Canadian dollar depreciates.

The only component in the portfolio that is hedged to Canadian dollars is foreign bonds or equivalent debt exposures arising from other investments. This is to neutralize changes in foreign currency values and allows foreign bonds to serve as a reasonable substitute for Canadian bonds. It also significantly reduces the volatility of this component of the portfolio.

We see little reason to believe that there will be a sustained long-term trend to net returns from exchange rate movements for the currencies associated with the Fund's equity holdings. Accordingly, we do not hedge this exposure. If a country has substantially higher inflation than others, investors will demand a corresponding risk premium against the likely decline in its currency. Further, the impact of currencies on the volatility of returns from foreign equities is minimal. By far, the largest component of that volatility is the local equity market returns themselves.

Also, for emerging markets the transaction costs of hedging many currencies back to the Canadian dollar is prohibitively high. And, if these countries have a significant long-term advantage in improving productivity and economic growth, their currencies will tend to strengthen over time vis-à-vis developed countries. Hedging would negate this potential gain to the Fund.

Finally, the Canadian dollar is highly linked to the price of oil and, to a lesser extent, other commodities. In principle, diversifying currency exposure away from a dominant but uncertain driver is prudent. In effect, hedging would unduly tie returns of the CPP Fund to the price of oil and other commodities as they drive the foreign exchange value of the Canadian dollar.

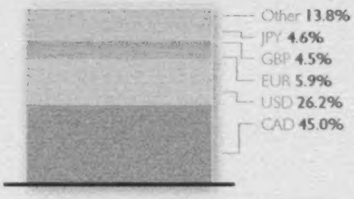
We thus see no compelling argument to incur the transaction costs of hedging equity-related currency exposures resulting from the CPP Reference Portfolio. We accept that in years of large currency moves, total Fund performance may then be materially affected relative to other funds – in either direction. But this is expected to even out over time while saving on significant hedging costs.

Nevertheless, we do believe that skilled active managers can add value by successfully anticipating short- and medium-term behaviour of the international currency markets. Accordingly, within specified risk limits, we exploit this skill through a number of internally and externally managed active investment programs.

The constituent market value weightings of the four CPP Reference Portfolio asset classes, along with our currency hedging policy, would result in the targeted geographic and currency exposures shown below, as at March 31, 2012.

GEOGRAPHIC MARKET AND CURRENCY EXPOSURES OF REFERENCE PORTFOLIO

Geographic market exposures



Currency exposures

2. VALUE-ADDING ACTIVE MANAGEMENT

The second principal element of our investment strategy is to increase return and diversification through a wide range of active investment programs. This is the element on which we focus most in our day-to-day work. All active programs must meet the test of efficient scalability as the Fund continues to grow. We generally choose not to participate in programs that might be attractive but have limited capacity, or that are unduly complex or opaque relative to their potential benefit.

The decision to pursue active investing is not taken lightly. Many investors seek above-market risk-adjusted returns, but relatively few consistently achieve them. Management must continually assure the Board of Directors that we can realize on our comparative advantages with discipline and diligence. We must show that it is reasonable to expect sufficient additional returns over long periods of time to justify added cost and complexity. Successful active investing requires great internal expertise and operational capability. Accordingly, management must attract and retain the highly skilled and motivated teams required to succeed in competitive investment markets.

Active programs are funded by the sale of CPP Reference Portfolio holdings. Some programs, such as market-neutral or long/short positions, may be largely self-funding. The evolution of the resulting mix of passive and active management holdings is shown below.

ACTIVE VERSUS PASSIVE ASSETS

Risks and associated returns of investments are usefully separated into two components: systematic risks and non-systematic risks. Systematic risks stem from factors that affect all investments in a particular portfolio. The returns from systematic risks are often called *beta*. Non-systematic risks – also called *idiosyncratic* – are specific to each individual investment. Investment-specific returns beyond beta are often called *alpha*. Systematic risks may be diversified at the total portfolio level, but cannot be eliminated. Non-systematic risks can, in theory, be substantially diversified away in a sufficiently broad portfolio, but their alpha returns (positive or negative) would be correspondingly lost also.

We use the term *active risk* to identify and measure the risk of making active investments that diverge from the CPP Reference Portfolio to earn additional beta and/or alpha returns.

PERCENTAGE OF TOTAL FUND RISK

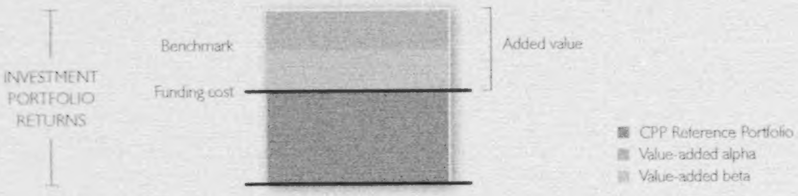
In undertaking active risk, we seek to add value in several ways:

> **Alpha:** Ideally, alpha can be earned through superior investment management skill whether markets are rising or falling. Such "pure" alpha is extremely valuable, as it does not add to systematic risks in the portfolio or materially to total risk. We deploy several strategies to earn alpha:

1. Capture the special opportunities available to large, sophisticated investors. Our private market investments are especially important here.
2. Purchase (or go *long*) individual public market securities that outperform those that are used to finance them (or go *short*). The long/short activities of our Global Corporate Securities group and of a number of external specialist managers that we have engaged typify this approach. The choices of individual private equity and debt investments, as well as individual real estate properties and mortgages, also rely on this skill.
3. Employ structured trades and arbitrage techniques to capture specific risk premiums – most notably for liquidity, where we have a major competitive advantage – and to do this without adding materially to market risks. We maintain structuring and trading skills in our Global Capital Markets group to execute this strategy.
4. Shift systematic risk exposures to successfully anticipate relative price movements among currencies and other asset classes. Our internal Global Tactical Asset Allocation group and certain external managers provide particular skills for this strategy.

> **Better Beta:** We invest significantly in asset classes and risk exposures not directly represented in the CPP Reference Portfolio. Systematic return sources such as real estate and liquidity risk are expected, over long periods of time, to offer meaningful additional returns and diversification of active risk.

ILLUSTRATIVE EXAMPLE OF ALPHA AND BETA VALUE-ADDED RETURNS



Capitalizing on our size, skills and access to world-class partners, we have sought both alpha and better beta through major investments in private markets. The growth of our private investing programs is shown below.

GROWTH OF PRIVATE INVESTING PROGRAMS

ASSET TYPE ($ BILLIONS)	March 31, 2005	March 31, 2010	March 31, 2011	**March 31, 2012**
Private equity	2.9	16.1	22.7	**26.3**
Real estate equity	0.4	7.0	10.9	**17.1**
Infrastructure	0.2	5.8	9.5	**9.5**
Private debt	–	0.9	3.1	**4.7**
Private real estate debt	–	0.3	0.6	**1.6**
TOTAL	3.5	30.1	46.8	**59.2**
% OF FUND	4.3%	23.6%	31.6%	**36.6%**

Private market investment valuations often lag the short-run performance of their public counterparts in both up and down markets, but we believe they will add materially to Fund returns over the long run.

Active management has also been growing in importance in public markets as we build our team, enhance our skills and work with external managers whose expertise complements in-house capabilities.

GROWTH OF TOTAL ACTIVE RISK

	Growth of Total Active Risk			
	Better Beta Strategies		Alpha Strategies	
ASSET TYPE ($ BILLIONS)	Active Risk (VaR bps[1])	% Contributed to Total Active Risk	Active Risk (VaR bps[1])	% Contributed to Total Active Risk
March 31, 2011	31	16%	161	84%
March 31, 2012	78	33%	159	67%

[1] Value at Risk, or "VaR", is our primary measure of risk and is described under Risk/Return Accountability Framework on page 32.

Managing Costs

We continually seek to minimize costs in all of our active management programs. Every dollar saved is not only equivalent to one dollar of additional income for the Fund, but also much more certain than one dollar of possible return. This raises the bar that our active programs must clear. Frequently, our scale and internal capabilities allow us to successfully undertake activities similar to those of external investment management firms, but at a fraction of the cost. For example, we estimate that the fees and expenses for external management of an infrastructure portfolio the size of ours would cost approximately 10 times more than our all-in internal costs. On the other hand, we are willing to pay external management fees for high prospective payoffs in new areas where our extensive internal expertise must nevertheless be supplemented by others. Overall operating expenses were 28.6 basis points on the average Fund size in fiscal 2012. While comparable to other large funds, this level is relatively low given the above-average extent to which we employ private investments and alternative assets to seek added value net of all costs.

3. TOTAL PORTFOLIO APPROACH

In seeking added value through active investing, we have developed an investment approach that is different from that of most other investors. The CPP Reference Portfolio essentially represents a set of economic exposures and systematic risks that we are comfortable with as a starting point. When we decide to extend our investments beyond the CPP Reference Portfolio we deliberately accept the consequences of the active programs decision – but use the Total Portfolio Approach to avoid, as far as possible, any unintended exposures and uncompensated risks.

CPP REFERENCE PORTFOLIO	ECONOMIC EXPOSURES	
Canadian Equities Foreign Developed Market Equities Emerging Market Equities	All passive public equity exposure plus private equity plus underlying equity exposures inherent in real estate, infrastructure, credit and private debt	65% Equity
Canadian Nominal Bonds Canadian Real Return Bonds Foreign Sovereign Bonds	All passive fixed income exposure plus underlying debt exposures inherent in real estate, infrastructure and private debt	35% Debt

Using the example of making a new private equity investment in a U.S. technology company, we prefer to fund this by proportionately selling publicly-traded U.S. technology stocks from the CPP Reference Portfolio. This sell/buy transaction would preserve the overall country, currency and sector weights in the total portfolio. As the prices of all portfolio investments change over time, we rebalance our public holdings regularly to maintain these intended overall exposures.

Many other investors classify investments simply by asset class labels, such as real estate or infrastructure, and target specific asset class weights in the total portfolio. We believe this traditional approach tends to create pressure, possibly at inopportune times, to buy or dispose of illiquid investments in order to stay close to allocation targets. More fundamentally, it conceals the highly diverse nature of investments within each asset class, while not explicitly recognizing the risk attributes they have in common. Accordingly, we strive to look through asset class labels to deconstruct each investment into its systematic risk exposures – that is, its sensitivities to:

> Equity markets;
> Government bond yields;
> Currency exchange rates;
> Country and regional influences;
> Commercial sector influences;
> Credit market conditions; and
> Liquidity.

Our diverse portfolio holdings can then be aggregated into effective exposures and risks relative to the CPP Reference Portfolio, minimizing unintended exposures in the total portfolio that might not be clearly visible using conventional asset class labels. In particular, this has enabled us to prevent unrecognized equity-like risk from creeping into the portfolio through virtually all private asset classes – not just private equity. Further, we can manage the total portfolio to minimize the extent of active risk for which there is not expected commensurate return.

Examples of the Total Portfolio Approach at Work

Here are two examples that illustrate how we use the Total Portfolio Approach to maintain intended economic exposures. Both also show how we adjust for leverage in the underlying investment, a critical contributor to risk.

FUNDING A PRIVATE EQUITY TRANSACTION USING THE TOTAL PORTFOLIO APPROACH

To maintain total portfolio risk/return balance, we take two actions:

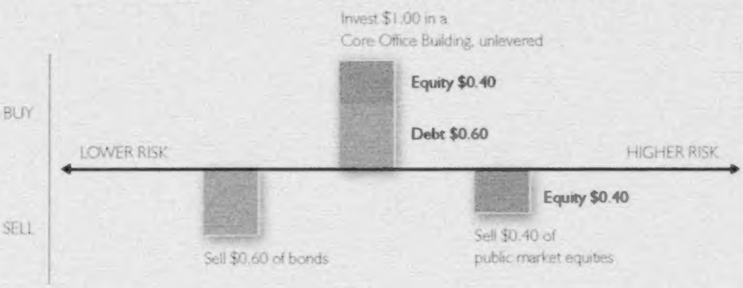
1. Match the sector and geographic regions of the public equities that are sold in order to purchase the private equity that is bought; and
2. Fund a $1.00 private equity purchase by typically selling $1.30 of public equity and buying $0.30 of bonds. The resulting higher bond content in the total portfolio approximately offsets the typically higher leverage (debt level) inherent in private versus public companies.

Real estate and infrastructure entail elements of both equity- and debt-like returns and risk characteristics. As such, we:

> Conduct both quantitative and qualitative analyses of each investment and assign it to a risk category – low, core/medium or high; and

> Fund new purchases by selling a mix of public fixed income and equity holdings designed to match the risk category. Where our real estate investments carry mortgages, returns on our net investment are thus levered and correspondingly riskier. Accordingly, we maintain the total portfolio risk by raising more of the funding from equity sales and correspondingly less from selling fixed income investments. For infrastructure, the degree of leverage anticipated in the investment is allowed for in the choice of risk category.

FUNDING A REAL ESTATE TRANSACTION USING THE TOTAL PORTFOLIO APPROACH

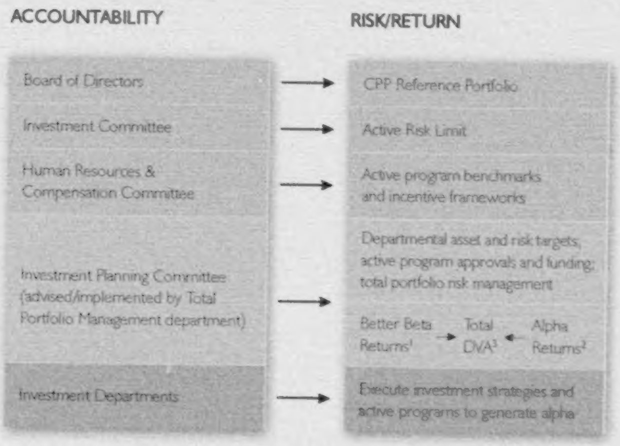


In summary, the Total Portfolio Approach demands that we characterize each investment or strategy in terms of its risk attributes, not just by its asset class label. These attributes determine the corresponding funding mix from CPP Reference Portfolio assets. This mix determines the return hurdle that a new investment is expected to exceed if it is likely to add value to the portfolio. Further, for every major proposed transaction, we first quantify its expected impact on the active risk of the portfolio, and make the decision whether to proceed in that light. Finally, we monitor our key evolving risk exposures each day – with particular attention to equity/debt, currency and country weights. The total portfolio is balanced at least monthly to within tolerance ranges of the intended targets. In our view, the Total Portfolio Approach is a relatively simple concept that leads to better portfolio management. However, making it work in practice requires complementary technology, detailed risk measurement and coordinated decision-making across the entire organization.

RISK/RETURN ACCOUNTABILITY FRAMEWORK

Our overall investment strategy is managed within the Risk/Return Accountability Framework. This is built on two cornerstones established by our Board of Directors: the CPP Reference Portfolio, described on page 24, and the Total Fund Active Risk Limit. Each year, the Board of Directors approves the active risk limit for the total portfolio. This caps how far management can deviate from the CPP Reference Portfolio to seek additional returns. Active risk is measured as one-year Value at Risk (VaR) at the 90th percentile. This indicates, with a 90% probability, the greatest amount by which the Fund might underperform the CPP Reference Portfolio in any 12-month period. Correspondingly, there is a 10% chance that underperformance might be larger than this amount. Management's Investment Planning Committee (IPC) evaluates each investment department's annual business plan and expected net new investments for the fiscal year. The IPC then approves active risk targets for each investment department, keeping their aggregate within the limit set for the total portfolio. The Board of Directors monitors management's actual deployment of risk relative to the business plans, and its achievement of value-added, through quarterly updates.

Successful investing requires well-defined scope, clear delineation of decision-making responsibilities, and fully aligned measures and incentives for accountability. The diagram below shows our structure:



[1] Benchmark return over funding cost.
[2] Actual return over benchmark.
[3] Dollar value-added over CPP Reference Portfolio.

Under the Total Portfolio Approach, we develop a mix of passive investments drawn from the CPP Reference Portfolio that is optimal for funding of each active program and its investments. This funding is approved by the IPC. The foregone return on the assets sold to finance the active investments, or the return on any cash required in the case of pure alpha strategies, is then known as the funding cost. In addition, the Human Resources and Compensation Committee of the Board of Directors establishes an explicit performance benchmark index or blend of indices for each active program and its incentive compensation structure.

We assign accountabilities according to this framework for both risk undertaken and returns achieved as follows:

Investment Planning Committee (IPC)

> The IPC is accountable for decisions to extend portfolio investments into both better beta and alpha areas, and for the assignment and approval of investment mandates.
> Its measure of success is the long-term value-added from each active program relative to its funding costs, that is the return on the alternative remaining invested in the CPP Reference Portfolio components used to fund the program.
> Its measures of risk are the total active risk that the actual portfolio exhibits relative to the CPP Reference Portfolio, and the difference in overall risk level between the Fund and the CPP Reference Portfolio.

Investment Departments/Groups

> Each is accountable for the execution of active portfolio management programs within its mandate.
> The measure of success is the value-added, after all costs, of the department's programs relative to the benchmarks approved by the HRCC.
> The measure of risk is the active risk of portfolio returns relative to benchmark returns.

Our measurements of risk are continually evolving as our capabilities broaden and deepen. In particular, risk quantification goes beyond market risk (the potential downside of capital markets) to also include credit risk. Using a VaR measure, credit risk estimates the potential losses if entities default as borrowers on loans from the CPP Fund or as counterparties under derivatives or other contracts.

We backtest risk measurement methodologies each quarter by comparing the actual range and frequency of outcomes against those predicted by our risk models. Further, we conduct stress tests to estimate the potential impacts on the Fund of major adverse events or environments. Recurrences similar to the equity crash of 1987, the emerging markets currencies and debt crisis of 1997–98, and the financial crisis of 2008–09, are examples of events that are simulated. We are now developing additional risk models that use multi-scenario forward-looking simulations to enhance active decision-making.

BENCHMARKING UNDER THE RISK/RETURN ACCOUNTABILITY FRAMEWORK

Public accountability demands that we compare our investment results not only against the very long-term expectations of returns needed to help sustain the CPP, but also against relevant benchmarks that represent feasible investment alternatives. In certain areas, where investable indices are not available or representative, the results of comparable investors can provide a standard. Benchmarking is critical to CPPIB and our Board of Directors in that it serves to:

> Assess the effectiveness of the active programs, based on the returns achieved relative to the active risks taken, and help decide which strategies should be emphasized, modified or curtailed; and
> Provide a basis for determining employees' incentive compensation related to value-added.

Nevertheless, the length of the measurement period, the circumstances during that period, and the extent to which the past may or may not be indicative of the future, are all limiting factors in drawing conclusions about investment performance results.

TOTAL FUND BENCHMARK

Our primary objective is to add value, after all costs, over the returns that could have been achieved by investing passively according to the CPP Reference Portfolio and its public market benchmark indices. This performance measure directly affects, in varying degrees, incentive compensation for all CPPIB employees.

DEPARTMENT/GROUP BENCHMARKS AND VALUE-ADDED TARGETS

Benchmarks are established by the IPC for management reporting purposes. The Human Resources and Compensation Committee of the Board of Directors approves the framework for all benchmarks used for compensation, as well as the specific benchmarks for all significant investment programs and the CPP Fund performance. Benchmarks and targets are established independent of the investing group according to the following principles and processes:

> Operating independently of the investment departments, the Total Portfolio Management department researches and identifies benchmarks that are most representative of the expected constitution and systematic risk of each active program.

> Targets for value-added performance are set that balance:
  - the intended focus of active decision-making, e.g., security selection;
  - the degree of risk inherent in the program. There should be no incentive to seek additional compensation and should not be achievable simply by taking on more risk;
  - the return that might reasonably be expected for that risk; and
  - the range of skill-based results exhibited by external managers in the same or related field.

> A range of positive/negative incentive compensation multipliers for levels of over/underperformance relative to the benchmark is developed for each active program. The multiplier for zero net value-added is zero.

> All external investment costs and internal operating costs are deducted from actual returns before attributing any value-added. Internal operating costs include both direct costs for the investment group and allocated amounts from oversight and administration areas. Incentive payments are based on a capped four-year rolling average of these multipliers. This period is the norm for organizations similar to CPPIB and consistent with industry-leading practices. It encourages a focus on longer-term rather than single-year results.

> Methods and results for actual returns are examined by CPPIB's external auditors who subsequently report to the HRCC.

A review by an independent advisor has confirmed that our processes meet or exceed the standards stated in the G20 Principles on Compensation in Financial Services.

Specific benchmarks and targets for individual investing groups are described below:

Public Market Investments: Most active mandates in the department are intended to generate pure alpha, independent of market movements. Active risk targets in dollar terms are established for the degree of active risk expected to be employed. We then target an absolute dollar amount of value-added over the risk-free returns on any cash required to finance or maintain the investment. We do this by assigning a competitive ratio of value-added per unit of active risk. Certain programs that employ external managers may, however, involve significant systematic risks. In that case, appropriate benchmark indices are assigned by the IPC.

Private Equity: The starting point is the public market equivalent return. This is the return that would have been achieved had the same cash flows been invested in public market equities of the relevant region or sector. However, private markets typically have greater leverage and therefore risks. To compensate for this, we require the achievement of an incremental return over public markets equity. In addition, to achieve the incentive compensation target, value-added must meet or exceed the historical performance of above-median external managers.

Infrastructure: The benchmark return is the funding cost. However, for incentive compensation purposes, the target return required on the equity portion of the funding mix is scaled in the same manner as for private equity.

Private Debt: The value-added target is to outperform long-term historical default experience for bonds or loans of equivalent credit quality. Higher or lower incentive multipliers result if the realized return of the specific investment category is equivalent to that of a significantly higher or lower credit quality.

Private Real Estate Equity: The Investment Property Databank (IPD) maintains surveys of property-level performance for a variety of countries. These surveys are well-recognized standards for comparable private real estate investments by institutions. Returns in the relevant survey are therefore used as benchmarks for the regional and sector (where available) components of our real estate program. We reduce these benchmarks for certain expenses not included in the IPD returns, notably land transfer and other taxes as well as acquisition costs.

Private Real Estate Debt: The return on publicly-traded corporate bonds of comparable credit quality and term to maturity forms the benchmark. The value-added target reflects the historical experience, after investment expenses, of major lenders in this field.

Overall, our approach results in many more investment-specific benchmarks than are typically used by other investment organizations. We believe this additional complexity is justified by the better matching of benchmarks with the risk characteristics of our active programs, and by clearer accountability and alignment for value-added contributions.

ENTERPRISE RISK MANAGEMENT

CPPIB's investment activities and business transactions expose us to a broad range of other risks in addition to investment risk. We manage all risks within an Enterprise Risk Management (ERM) framework with the goal of ensuring that the risks we take are commensurate with and rewarded by long-term benefits.

Our ERM framework includes ensuring we have a strong governance structure; processes for identifying, assessing, mitigating, monitoring and reporting all key existing and emerging risks; and control practices with independent assurance that they are working properly. We define a key risk as one that can have a significant adverse impact on our ability to execute our mandate.

Governance of risk-taking and risk management activities at CPPIB is accomplished by individual officers and committees and is described below.

The Board of Directors is responsible for oversight of CPPIB in fulfilling its mandate of achieving a "maximum rate of return, without undue risk of loss". To this end, the Board of Directors is responsible for ensuring that management has identified all key risks and established appropriate plans to address them. Board committees have risk-related responsibilities as follows:

> The Audit Committee is responsible for overseeing financial reporting, information systems and associated risks, external and internal audit and internal control policies and practices;

> The Investment Committee establishes investment standards, procedures and policies and reviews, approves and monitors CPPIB's investment activities including active risk levels. It also reviews the approach to investment risk management and approves the engagement of external fund managers and asset custodians;

> The Human Resources and Compensation Committee (HRCC) is responsible for risks related to our employees and employment practices. The HRCC reviews and recommends the compensation framework for CPPIB including approving department level performance benchmarks and incentive compensation, recommending the performance evaluation process for the Chief Executive Officer (CEO), ensuring a succession planning program is in place and reviewing our organizational structure; and

> The Governance Committee recommends governance policies, guidelines and procedures, makes recommendations on the Board's effectiveness, monitors application of the Code of Conduct and conflict of interest guidelines, and assumes other duties at the request of the Board of Directors.

The CEO is, by way of delegation by the Board of Directors, ultimately accountable for all risks at CPPIB beyond those explicitly controlled by the Board. The responsibility for risk management is distributed throughout the organization starting with the Senior Management Team.

The Senior Management Team (SMT) considers the full spectrum of inherent and emerging risks and ensures close alignment of our risk management efforts with our business strategy and plans. The leaders of each department are responsible for appropriately managing the risks assumed within their areas of responsibility.

The Chief Operations Officer (COO) has accountability for the Investment Risk (IR) department which measures, monitors and reports investment risks independently from the investment departments in order to maintain separation of function between investment management and risk monitoring and compliance.

The Chief Financial Officer (CFO) on behalf of the SMT has the mandate for overseeing the ERM framework. The Internal Audit department also plays an important role as it provides independent assurance that controls and mitigants are properly designed and are operating effectively.

Governance of risk management is achieved through the oversight of several specific risk committees, the establishment of investment and business management authority levels for decision-making, the expression of risk appetites and limits for specific risks, and formalized policies and standards of practice.

The Investment Planning Committee, advised by the Total Portfolio Management (TPM) department, manages the risk of the Fund relative to the CPP Reference Portfolio and guides risk allocations across our active investment programs in order to achieve optimal overall risk efficiency.

The following sections describe each of our five principal risk categories and management strategies.

Investment Risk: This is defined as the risk of loss due to participation in the investment markets including market risk (equity prices, interest rates, foreign exchange rates, commodity prices), credit and counterparty risk, and liquidity risk, in both internally and externally managed portfolios. It is managed and monitored in accordance with the Risk/Return Accountability Framework, as described on page 32.

We have risk committees to oversee each aspect of our investment risk exposures. Each quarter, the Investment Committee receives a Quarterly Investment Report that reviews our assets, investment income, investment returns and risk measures. The Investment Planning Committee receives a further view of the risks in the portfolio through weekly and monthly risk commentaries prepared by the Investment Risk group. In fiscal 2012, we established a Credit Investment Committee to oversee all of our credit investments and exposures and monitor our risk levels in accordance with approved risk limits.

Strategic Risk: This is the risk that CPPIB will make inappropriate strategic choices or be unable to successfully execute selected strategies or adapt to changes in the external business, political or socioeconomic environment over the long term. Managing strategic risk effectively, therefore, is critical to delivering on our mandate.

A number of important processes are in place within CPPIB to control and mitigate strategic risks:
> An annual review of our strategy by management that is reviewed with the Board;
> Strategies are prepared for each of our investment programs in order to ensure alignment with CPPIB's overall strategy and comparative advantages;
> Detailed business planning is executed by each department and reviewed by the CEO, with an annual business plan approved by management and the Board;
> Quarterly reporting and discussion of our progress is conducted against the approved plan with both management and the Board; and
> Quarterly reviews of the portfolio and associated investment risks are completed, factoring in capital market and emerging economic conditions.

Legislative and Regulatory Risk: This is the risk of loss due to actual or proposed changes to and/or non-compliance with applicable laws, regulations, rules and mandatory industry practices. Failure to comply could result in financial penalties or losses to the portfolio and damage to our reputation.

Our compliance program is designed to promote adherence to regulatory obligations worldwide and to help ensure awareness of the laws and regulations that affect us and the risks associated with failing to comply. We monitor emerging legal and regulatory issues as well as proposed regulatory changes and take a constructive role in these developments where appropriate. Input is regularly sought from external legal counsel to keep us informed on emerging issues.

Our Tax Services group in Finance plays a key role in informing decision-making and advising on tax risk management and also evaluating overall tax practices. We review associated key tax risk issues as part of our investment transaction due diligence and risk at the total Fund level.

Operational Risk: This is the risk of loss due to actions of people, or inadequate/failed internal processes or systems in response to either internal or external factors.

Operational risk encompasses a broad range of risks, including those associated with the following:
a) Human resource management and employment practices;
b) Employee misconduct including breaches in the Code of Conduct, fraud, unauthorized trading;
c) Business continuity which constitutes our ability to recover from business interruptions and disasters;
d) Transaction processing, operations and project execution; and
e) Data and information security and the integrity of financial reporting.

Exposures can take the form of direct financial losses, indirect financial losses masked as operating inefficiencies, regulatory sanctions or penalties, or damage to our reputation. Operational risk can also directly impact our ability to manage other key risks.

Primary accountability for the management of operational risks is with each member of the Senior Management Team for the functions and activities within their department. We manage operational risk through internal controls which are subject to internal audit reviews; we also conduct a thorough analysis as part of the CEO/CFO certification of internal control over financial reporting. Our Treasury, Risk, Operations and Technology department maintains rigorous protocols for implementing new technologies, ensuring data and information security and establishing continuity plans for potential business interruptions.

Reputation Risk: Reputation risk is the risk of loss of credibility due to internal or external factors and is often related to and/or a result of the other categories of risk. This risk can arise from our own internal business practices or those of our business partners or the companies in which we are substantial investors. Business partners include third parties to whom we have outsourced some of our administrative functions and rely upon to fulfill their obligations as well as investment organizations with whom we have a contractual arrangement.

Management and the Board of Directors CPPIB have a responsibility to manage reputation risk as does every employee. This responsibility is clearly detailed and communicated through our Code of Conduct which, as an example, requires all employees and directors to disclose any personal trading or business interests that might lead to a real, potential or perceived conflict of interest.

CPPIB has established a culture based on strong ethics which guide our decisions and activities. Our Guiding Principles of Integrity, Partnership and High Performance apply to all our business activities. We require reputation risk assessments to be considered as part of the investment decision-making process, business strategy development and execution. Further, our Issues Management Executive Committee regularly monitors issues that could have a reputational impact with our key stakeholders.

In December 2011, Standard & Poor's Ratings Services affirmed its highest long-term issuer credit rating, AAA, on CPPIB. As part of the rationale, S&P stated that CPPIB benefits from a well-developed risk management framework.

At CPPIB we recognize the importance of setting a strong "tone from the top", promoting risk awareness throughout the entire organization and embedding this within the culture. We believe that a strong risk-aware culture underpins a successful ERM program, and our ERM framework and practices will continue to evolve with the ongoing development of our organization.

FINANCIAL PERFORMANCE

During fiscal 2012, we continued to build our long-term investment programs and diversify our portfolio by increasing investments in private asset classes across the globe.

ASSET MIX

The chart below provides a more detailed view of the CPP Fund's asset weightings, both by asset category and by economic exposures, as discussed in the Total Portfolio Approach section on page 30.

INVESTMENT PORTFOLIO

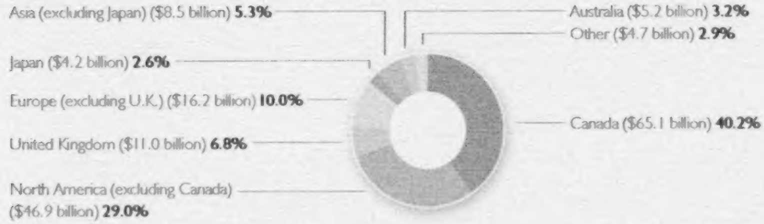
AS AT MARCH 31, 2012	Asset Mix		Exposure Mix	
ASSET CLASS	($ billions)	(%)	($ billions)	(%)
CANADIAN EQUITIES	**14.2**	**8.8**	**15.9**	**9.8**
Public	12.5	7.7		
Private	1.7	1.1		
FOREIGN DEVELOPED MARKET EQUITIES	**56.7**	**35.1**	**78.3**	**48.4**
Public	33.5	20.8		
Private	23.2	14.3		
EMERGING MARKET EQUITIES	**10.6**	**6.5**	**10.6**	**6.6**
Public	9.2	5.6		
Private	1.4	0.9		
FIXED INCOME	**53.7**	**33.2**	**43.9**	**27.1**
Non-marketable bonds	23.6	14.6		
Marketable bonds	18.0	11.1		
Inflation-linked bonds	3.2	2.0		
Other debt	8.8	5.4		
Money markets and debt financing	0.1	0.1		
FOREIGN SOVEREIGN BONDS	–	**0.0**	**9.1**	**5.6**
REAL ASSETS	**26.6**	**16.4**	**4.0**	**2.5**
Real estate	17.1	10.6		
Infrastructure	9.5	5.8		
INVESTMENT PORTFOLIO[1]	**161.8**	**100.0**	**161.8**	**100.0**

[1] Excludes non-investment assets such as premises and equipment and non-investment liabilities.

This chart illustrates the global diversification of the CPP Fund. At the end of fiscal 2012, Canadian assets represented 40.2% of the investment portfolio and totalled $65.1 billion. Foreign assets represented 59.8% of the portfolio and totalled $96.7 billion.

GLOBAL DIVERSIFICATION

As at March 31, 2012



PORTFOLIO RETURNS[1]

ASSET CLASS	Fiscal 2012	Fiscal 2011
Canadian public equities	**-10.7%**	20.3%
Canadian private equities	**8.1%**	16.9%
Public foreign developed market equities	**3.6%**	9.1%
Private foreign developed market equities	**12.1%**	19.4%
Public emerging market equities	**-7.9%**	11.2%
Private emerging market equities	**6.6%**	17.1%
Bonds and money market securities	**9.5%**	5.3%
Non-marketable bonds[2]	**14.4%**	4.3%
Inflation-linked bonds	**16.3%**	10.2%
Other debt	**8.5%**	16.3%
Foreign sovereign bonds[3]	**N/A[4]**	3.0%
Real estate	**13.0%**	13.9%
Infrastructure	**12.8%**	13.3%
Investment Portfolio[5]	**6.6%**	11.9%

[1] Investment results by asset class are reported on an unhedged Canadian dollar basis as any currency hedging takes place at the total portfolio level (except foreign sovereign bonds). Results are calculated on a time-weighted basis. Commencing in fiscal 2007, the rate of return reflects the performance of the Investment Portfolio which excludes the Cash for Benefits portfolio.

[2] Non-marketable bonds were previously aggregated within bonds and money market securities.

[3] Returns for foreign sovereign bonds include the impact of currency hedging.

[4] A return for foreign sovereign bonds is not shown for fiscal 2012 as the strategy existed for less than one year.

[5] The Investment Portfolio return in fiscal 2012 includes a $129 million loss from currency hedging activities and a $127 million gain from absolute return strategies, which are not attributed to an asset class.

	Fiscal 2012		Fiscal 2011	
	%	**$ billions**	%	$ billions
TOTAL FUND RETURNS[1,2]				
1-year return	**6.6**	**9.9**	11.9	15.5
5-year return	**2.2**	**17.7**	3.3	20.9
10-year return	**6.2**	**59.4**	5.9	51.8

[1] Commencing in fiscal 2007, the rate of return reflects the performance of the Investment Portfolio which excludes the Cash for Benefits portfolio.

[2] Percentage returns are annualized. Dollar figures are cumulative.

TOTAL FUND PERFORMANCE

The CPP Fund ended its fiscal year on March 31, 2012 with net assets of $161.6 billion, an increase of $13.4 billion from the prior year end. This increase reflected $9.9 billion in investment income and $3.9 billion in CPP net contributions, less $0.4 billion in operating costs.

The portfolio returned 6.6% for fiscal 2012 compared with 11.9% for fiscal 2011. The fiscal 2012 results were strong despite the challenging global equity market conditions this fiscal year. The sluggish U.S. recovery and concern over the European sovereign debt crisis resulted in extreme equity market volatility. Though there were many highs and lows, Canadian equity markets had declined over 10% by the end of the 2012 fiscal year while U.S. equity markets reversed course in the second half of the fiscal year and ended the year up 6%. Fixed income markets fared better, as a continued flight to quality resulted in lower yields (and higher prices) on U.S. and Canadian government debt.

The fiscal 2012 performance of the Fund benefitted from our active management programs and private market holdings, which were not subject to the heightened volatility experienced by the public equity markets. After a relatively stable first quarter, global equity markets declined dramatically in the second quarter of the fiscal year amid renewed recession fears and growing concerns related to the European sovereign debt crisis and the U.S. government's downgrade by rating agency Standard & Poor's. The political failure to take clear action in both Europe and the U.S. elevated the level of uncertainty among investment communities, which exacerbated volatility. This led to a major equity sell-off. All major indices posted losses and many experienced their worst quarter since the height of the financial crisis. The German DAX fell more than 25% in Canadian dollar terms and the S&P/TSX composite declined more than 12%. Fixed income markets benefitted from a flight to quality and accommodative monetary policies as the yield on 10-year U.S. Treasuries hit an all-time low.

In the third and fourth quarters of the fiscal year, markets reversed course and most of the major equity indices posted gains, although only the U.S. and Japanese markets were able to reverse the losses incurred in the second quarter. The S&P/TSX ended the fiscal year down by 12.2% and the German DAX was down 1.3% while the S&P 500 was up 6.2% and the Nikkei 225 gained 3.4%. Fixed income markets remained strong in the second half of the year and added to their gains overall.

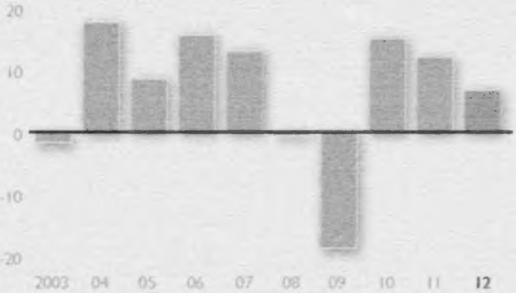
The decline of the Canadian dollar positively impacted this year's total Fund return. The Canadian dollar's gain relative to the Euro was eclipsed by declines in value relative to the U.S. dollar, British Pound, Japanese Yen and Australian Dollar. This increased Fund returns by $0.5 billion when returns on our foreign exposure were converted to Canadian dollars.

We also report on longer-term results in accordance with our long investment horizon. For the five-year period ending March 31, 2012, the CPP Fund generated an annualized rate of return of 2.2% or $17.7 billion of investment income. For the 10-year period, the Fund had an annualized rate of return of 6.2% or $59.4 billion of investment income.

While the five-year return is below the estimated 6% nominal rate, or annualized 4% real rate of return, required to sustain the CPP at its current contribution rate, as estimated by the Chief Actuary of Canada in his 25th Actuarial Report, it should be viewed in the context of the performance of major global financial markets over the same period. The major decline in equity markets that began in late calendar 2008 has barely been recouped, and thus continues to weigh down both the five- and 10-year returns. Although the recovery that began in 2010 and continued into 2011 faltered slightly this year, the 10-year return, net of inflation, is in excess of 4.0% which reinforces our confidence in the Fund's current portfolio construction and our ability to deliver the average 4.0% real return over longer periods of time that is anticipated by the Chief Actuary.

RATE OF RETURN

For the year ended March 31 (%)



CPP REFERENCE PORTFOLIO RETURNS

The CPP Reference Portfolio is the foundation of our investment strategy and provides a clear benchmark to total portfolio returns against which management is held accountable. The CPP Reference Portfolio is comprised of public market asset classes represented by broad indices. (See page 24 for more information on the CPP Reference Portfolio).

ASSET CLASS	BENCHMARK	2012 Return (%)	2011 Return (%)
Canadian equities	S&P Canada Broad Market Index	**-10.6**	20.7
Foreign developed market equities	S&P Developed ex-Canada LargeMidCap Index[1]	**4.4**	9.2
Emerging market equities	S&P Emerging LargeMidCap Index[1]	**-6.9**	12.2
Canadian nominal bonds	Custom-blended benchmark of actual CPP bonds and DEX All Government Bond Index	**12.6**	4.6
Foreign sovereign bonds (hedged)[2]	Citigroup World Government G7 Bond Index[2]	**7.8**	3.2
Canadian real return bonds	DEX Real Return Canada Bond Index	**16.4**	10.3
Total CPP Reference Portfolio		**4.6**	9.8

[1] Net of tax unhedged.

[2] Hedged to Canadian dollars.

On a longer-term basis and showing their cumulative dollar impact on the Fund, CPP Reference Portfolio returns have been as follows:

	Fiscal 2012		Fiscal 2011	
	%	**$ billions**	%	$ billions
CPP REFERENCE PORTFOLIO RETURNS[1]				
1-year return	**4.6**	**6.8**	9.8	12.8
4-year return	**3.1**	**18.6**	1.2	8.6
Since inception return[2]	**3.3**	**26.0**	3.0	19.2

[1] Percentage returns are annualized. Dollar figures are cumulative.

[2] CPP Reference Portfolio inception date: April 1, 2006.

PERFORMANCE AGAINST BENCHMARKS

In fiscal 2012, our investment portfolio return exceeded the CPP Reference Portfolio returns by $3.1 billion as we benefitted from our active management strategies and the diversification provided by our private assets.

This year, in an effort to continually improve our disclosure and transparency, the decision was made to measure the difference between the investment portfolio's performance and the performance of its benchmark, the CPP Reference Portfolio, only in dollar terms rather than in basis points in this and future years. Dollar value-added (DVA) is a more complete measure since it encompasses both the rate of return success and the asset base to which the success applied. Performance measures should be:

1. Free from bias – not influenced by irrelevant or inappropriate factors;
2. Standardized – rules-based and fully documented method of calculation;
3. Sound – appropriate for their purpose with sound rationale;
4. Consistently applied – across investment groups, departments and strategies; and
5. Comparable – allowing for fair comparability across investment units.

DVA meets all these criteria and is an easily understood measure of success. It provides the additional benefit of being directly additive over multiple periods.

For accountability purposes, we track value-added performance over rolling four-year periods. While this does not necessarily represent a full market cycle, the four-year period is consistent with periods used by organizations similar to CPPIB as a reasonable basis for assessing longer-term performance and is used in our incentive compensation framework.

	Fiscal 2012 $ billions	Fiscal 2011 $ billions
VALUE-ADDED RETURNS[1]		
1-year value-added	**3.1**	2.7
4-year value-added	**-0.5**	-0.7
Since inception value-added[2]	**4.8**	1.7
Since inception value-added net of all Fund costs[2]	**3.3**	0.6

[1] Relative to CPP Reference Portfolio. Figures are cumulative.
[2] CPP Reference Portfolio inception date: April 1, 2006.

Given our long-term view, we also track cumulative value-added returns since the April 1, 2006 inception of the CPP Reference Portfolio. Cumulative value-added over the past six years totals $4.8 billion. Over this same period of time, our cumulative costs to operate CPPIB were $1.5 billion, resulting in net dollar value-added of $3.3 billion. Fund costs include operating costs that are allocated to the investment departments and also governance costs that are not attributable to specific departments. Many of our investment programs, such as real estate and infrastructure, are very long-term in nature and we are now accumulating longer-term results that we believe reflect the benefits of our active management strategy. The value-added embedded within our private market holdings was demonstrated in part by the sale of Skype in fiscal 2012, which resulted in the realization of significant gains.

CASH FOR BENEFITS PORTFOLIO

Since 2004, we have been responsible for the short-term cash management program that supports monthly benefit payments made by the CPP. This Cash for Benefits portfolio is segregated from the long-term investment portfolio and invested only in liquid money market instruments. The primary objective is to ensure the CPP can meet benefit payment obligations on any business day.

A secondary objective is to match or exceed the benchmark return of the DEX Capital Markets 91-day Treasury Bill Index. The portfolio earned 0.8% or $18.5 million for fiscal 2012 versus 0.9% for the index. Over the course of the year, this short-term portfolio had average balances of approximately $1.7 billion.

INVESTMENT DEPARTMENTS REVIEW

This section describes the responsibilities of our investment departments, their performance, and the highlights of investment activities during fiscal 2012.

This year's focus has been on both refining and extending our investment programs and processes as a global investment organization. We have broadened the scope of our active programs, with additional emphasis on emerging markets, while continuing to strengthen our investment teams and processes. Both breadth and depth of our programs, and capabilities to manage them, are critical to achieve our long-term mandate. We are continuing to build an organization designed to leverage and maximize the benefits of CPPIB's comparative advantages.

Commitment to ensuring that we have the required expertise and experience accounts for the net addition of 67 staff in the three investment departments (Public Market Investments, Private Investments and Real Estate Investments) and the Total Portfolio Management department. The singular investment focus and distinctive culture of CPPIB has attracted leading professionals from Canada and abroad to fill a number of key positions. Of particular note are the additions of Eric Wetlaufer as Senior Vice-President heading our Public Market Investments department, who was formerly Group Chief Investment Officer, International, at Fidelity Research and Management in Boston; and Mark Machin as President, CPPIB Asia Inc., who was formerly Vice Chairman, Asia ex-Japan, at Goldman Sachs. Based in Hong Kong, Mr. Machin will further develop CPPIB's strategy and programs throughout the Asia Pacific region in partnership with the rest of CPPIB's Senior Management Team.

CPPIB is no longer simply a large Canadian entity that invests globally; rather it is evolving as a truly global investment organization. To be viewed as a preferred partner for the best opportunities globally requires that we build and maintain a significant presence in the regions in which we invest. Clearly, this local presence is important in private markets, where strong partnering relationships are critical to success. However, acquiring in-depth knowledge of specific public companies is also aided through an on-the-ground presence. Our European and Asian offices, in London and Hong Kong, each opened in 2008. Both represent increasingly active channels for CPPIB in their respective regions. London's staff grew from 26 in 2011 to 38 this year, while the Hong Kong complement has grown from 15 to 23. We are committed to continuing our expansion outside Canada.

We are equally committed to continual improvement of our processes. Each investment group rigorously researches, evaluates and enhances its strategies and the ways that it makes decisions. Also, each current or proposed active program must meet the tests of scalability, meaningful potential to contribute to value-added at the total Fund level and operational efficiency. The information and risk measurement systems required to support our investment departments continue to be strengthened following the successful deployment in 2010 of an in-house portfolio accounting, performance measurement and attribution capabilities system.

Sound judgement is as important for investment success as sophisticated analysis. As a globally recognized long-term investor, we are presented with numerous investment opportunities. But, applying experienced judgment backed by thorough analysis, we decline well over 90% of these opportunities because they do not meet our risk/return criteria. Deciding not to invest, or to sell an existing holding, is as important as deciding to make a new investment.

This year's investment activity included 25 transactions of over $200 million each, nine in real estate and 16 in private equity, private debt and infrastructure investments. These sizeable and complex investments spanned the globe, attesting to CPPIB's broad and deep internal capabilities. Key highlights were:

> Acquisition of Kinetic Concepts, Inc., a leading global medical technology company, by a consortium comprising CPPIB, Apax Partners and the PSP Investment Board, for a total transaction value of US$6.1 billion (C$6.2 billion). This was the second largest private equity transaction globally in calendar 2011 and marks the third consecutive year that CPPIB has participated in the largest or second largest private equity transaction in the world;

> Formation of a 50/50 joint venture with U.K.-based Land Securities to develop Victoria Circle, a transformative development project in a prime area of London's West End;

> Acquisition of a 45% interest in a portfolio of 10 high-quality regional malls and two redevelopment sites in the U.S. for an equity investment of US$1.8 billion (C$1.8 billion). This investment represents CPPIB's largest real estate investment to date globally and enables us to partner, once again, with Australia's Westfield Group;
> Acquisition of a 24.1% stake in the Gassled Joint Venture, a major gas transport infrastructure in Norway, alongside two consortium partners, Allianz Capital Partners and a wholly-owned subsidiary of the Abu Dhabi Investment Authority. The total transaction value was NOK17.35 billion (C$3.2 billion); and
> Acquisition of a 50% interest for an equity investment of A$455 million (C$470 million) in Northland Shopping Centre, a prime shopping mall located in Melbourne, Australia.

Managing the total portfolio requires the discipline of maintaining risk exposures at their intended levels, despite the daily volatility of markets. To achieve this end, we maintain a large margin of liquidity in the form of unencumbered publicly-traded assets so that we can readily adjust the portfolio whenever necessary. For example, in the second quarter of fiscal 2012, foreign developed market (ex-Canada) equities underperformed Canadian bonds by nearly 16% (these are our two largest asset classes). Disciplined rebalancing, achieved by selling bonds and purchasing equities, ensured that the Fund was positioned as intended for the third quarter when these equities outperformed bonds by over 3%. This liquidity management also allows us to finance large investments as they occur and meet cash commitments on derivatives positions at any and all times, while also ensuring cash needed for CPP benefit payments is always available.

INVESTMENT ACTIVITIES BY DEPARTMENT

All investment activity is conducted in accordance with the Investment Policy approved by our Board of Directors and published on our website as the *Statement of Investment Objectives, Policies, Return Expectations and Risk Management*. The Board establishes the CPP Reference Portfolio, and annually sets a maximum level of active risk for the total Fund that limits the risk that management may take to pursue value-added through active programs. These key elements are discussed in the Risk/Return Accountability Framework section on page 32.

As at March 31, 2012

[1] At the end of fiscal 2012, these assets were valued at $100.7 billion, of which $11.8 billion represented the active public market programs.

INVESTMENT PLANNING COMMITTEE

Management's Investment Planning Committee (IPC) oversees investment management of the total portfolio, and ensures compliance with the Investment Policy and the active risk limit. Each investment department operates within a funding and benchmarking framework established by the IPC. The IPC is chaired by the Chief Investment Strategist, who also heads the Total Portfolio Management department. Other IPC members are the President and Chief Executive Officer; the Executive Vice-President, Investments (until July 1, 2012 when this position will be eliminated); the department heads of Public Market Investments, Private Investments and Real Estate Investments; the President, CPPIB Asia; the Chief Operations Officer and the Chief Financial Officer.

The IPC:

> Manages the Fund's primary risk exposures, such as market risk, credit risk, foreign currency and liquidity;
> Approves target ranges for asset deployment by the Private Investments and Real Estate Investments departments, and for risk deployment by the Public Market Investments department, ensuring that the resulting expected total active risk remains within the limit set by the Board;
> Approves new active management programs designed to capture systematic and/or skill-based returns, and their funding, currency hedging, performance benchmarks and active risk expectations. The IPC may also modify funding and/or benchmarks for active programs as they evolve. To the extent that a program's benchmark (against which the investment department is measured) differs from its funding (which the IPC decides), the resulting return and risk differences are attributed as a part of the IPC's "portfolio";
> Undertakes certain active investments for which the IPC itself is accountable rather than any one investment department; and
> Oversees the management of the passive components of the portfolio to closely track public market indices.

ROLE OF IPC

The diagram below illustrates the activities of the IPC and its interaction with various departments.

The IPC thus has overall responsibility for total value-added of the Fund relative to the CPP Reference Portfolio, being the combination of (i) value-added by beta decisions to extend active investments into areas not included in the CPP Reference Portfolio (relative to the returns forgone on securities correspondingly sold from the CPP Reference Portfolio), and (ii) value-added (relative to benchmark indices) by alpha decisions on purchase and disposition of investments, which are the specific responsibility of the investment departments. Four broad active strategies contribute to total value-added, and the contributions of each to dollar value-added are shown in the table below:

VALUE-ADDED CONTRIBUTIONS OF INVESTMENT STRATEGIES[1]

$ billions	1-Year	4-Year	Since Inception[2]
Public Market Investments	**0.2**	0.7	0.5
Private Investments	**2.0**	-0.6	3.7
Real Estate Investments	**0.8**	-0.8	0.7
Investment Planning Committee	**0.1**	0.2	-0.1
Total Fund	**3.1**	-0.5	4.8

[1] Includes both alpha and beta value-added before operating expenses.

[2] CPP Reference Portfolio inception date: April 1, 2006.

The IPC itself manages three active programs that were initiated during the global financial crisis, with investments acquired at what we believe were discounts to their long-term expected value. The largest is a portfolio of leveraged buyout loans managed by two leading external managers with specialist expertise. The other two are a portfolio of distressed mortgages, also externally managed, and an internal strategy of selling long-horizon equity index volatility. These longer-term strategic investments experienced losses during the turmoil of 2008–09 which were more than recovered in fiscal 2011.

In fiscal 2012, the IPC undertook an additional active program that provides liquidity to the natural catastrophe bond market through risk-limited insurance-linked securities managed by an experienced external specialist firm. By its nature, this return source is uncorrelated with other programs. It is accessible through our structural advantage as a capital supplier (at the right price), particularly when liquidity in the insurance market is limited and its return premium is high.

In fiscal 2010, CPPIB established a commercial paper program to further ensure flexibility in managing short-term liquidity. These issues continue to carry the top credit ratings from Standard & Poor's, Moody's and DBRS. Our debt outstanding was $2.4 billion at the end of fiscal 2012.

One of the IPC's roles is to manage the Fund's overall foreign currency exposures (excluding programs that involve active management of currencies) to the strategic weights embodied in the CPP Reference Portfolio. This is simpler and more effective than managing currency within each investment department. The following sections show actual returns for each department both before and after the impact of changes in exchange rates. Since each department does not itself manage currency exposure, we have correspondingly adjusted benchmarks to ensure comparability of asset and benchmark returns in the same currency. The rationale for our currency hedging policy is discussed on page 26.

TOTAL PORTFOLIO MANAGEMENT

The 47-member Total Portfolio Management (TPM) department is the operational arm of the IPC and is responsible for ensuring comprehensive implementation of the Total Portfolio Approach. Ongoing acquisitions and divestments in the public markets, private investments and real estate active investment programs alter portfolio composition over time. TPM monitors and guides this investment activity to encourage portfolio evolution that best meets long-term Fund objectives. TPM guides portfolio development with three broad levers.

First, TPM establishes top-down departmental investment ranges (of assets and active risk) that collectively constitute strong long-term portfolios for the Fund. Long-term investment ranges support investment department planning and build-out of multi-year strategies. As investment departments execute within these ranges, we can be confident that resulting portfolios deliver desired risk and return characteristics without excessive concentrations in any one area.

Second, TPM disseminates internal risk pricing signals that influence individual investment decisions by the investment departments. By quantifying investment risk characteristics – including market, credit and illiquidity risks – and by establishing return requirements and benchmarks, TPM provides data that influences the minimum returns that an investment should generate to improve total portfolio performance.

Third, TPM decides which CPP Reference Portfolio assets should be sold to generate proceeds that fund active program asset acquisitions. Achieving positive returns from active management demands that newly acquired assets outperform the CPP Reference Portfolio securities they replaced, so the choice of dispositions for funding has a profound impact on total portfolio performance. Poorly chosen CPP Reference Portfolio sales can undermine risk-adjusted active returns with unanticipated volatility even if the active program's investments generate returns as expected. Selling CPP Reference Portfolio assets that closely match the country, currency, sector and equity characteristics of the active investment helps diminish the random volatility of relative performance, and places appropriate focus on the fundamental investment thesis. Ongoing efforts that began in fiscal year 2012 will further enhance our funding process for active programs, and are expected to materially reduce active risk and improve portfolio performance.

In addition to guiding total portfolio performance with the three levers described above, TPM oversees some fundamental Fund activities. In fiscal 2012, following the Chief Actuary's most recent report, the department conducted the asset-liability modeling and portfolio analyses underlying the formal review of the CPP Reference Portfolio. This was presented to the Board of Directors, whose decision led to the changes in asset classes and allocations described on pages 25-26.

PUBLIC MARKET INVESTMENTS

The Public Market Investments (PMI) department invests in publicly-traded equity and debt securities, and in listed and over-the-counter derivatives based upon these assets or other prices such as commodities, currencies and interest rates. Investments in public markets are the largest component of the CPP Fund. At the end of fiscal 2012, these assets were valued at $100.7 billion; of this, $11.8 billion are directly managed in active public market programs. However, substantial additional active management is undertaken through market-neutral or long/short strategies for which a portion of the index-related, passively managed assets forms the backing assets or security. The public markets portfolio is managed by six investment groups: Global Capital Markets, Short Horizon Alpha, Global Corporate Securities, Global Tactical Asset Allocation, Relationship Investments and External Portfolio Management. The department's mandate has two aspects:

> Management of market-index related exposures in all CPP Reference Portfolio asset classes on behalf of the IPC, and execution of public market transactions on behalf of other programs. Both functions are provided by the Global Capital Markets group; and

> Management by the other five groups of a diverse array of active strategies primarily designed to capture "alpha" – the additional returns from successful active management beyond the market returns for systematic risks.

PMI's active investment programs generated minimal value-added in fiscal 2012, as shown in the chart below. Returns are reported only in dollar amounts, as many of the activities are conducted on a market-neutral or long/short basis for which there is no generally accepted underlying asset base for measuring returns in percentage terms.

PUBLIC MARKET INVESTMENTS – ACTIVE	Fiscal 2012 $ billions	Fiscal 2011 $ billions
RETURNS		
1-year	**0.3**	0.9
1-year benchmark	**0.2**	0.2

PUBLIC MARKET INVESTMENTS – ACTIVE	Fiscal 2012 $ billions	Fiscal 2011 $ billions
CONTRIBUTION TO PORTFOLIO VALUE-ADDED		
1-year	**0.0**	0.6
4-year[1]	**0.6**	0.4
Since inception[1,2]	**0.5**	0.4

[1] In fiscal 2012, we began to attribute value-added from efficient passive portfolio management to the IPC rather than Public Market Investments - Active. Previously reported numbers have been restated to be consistent with fiscal 2012.

[2] CPP Reference Portfolio inception date: April 1, 2006.

This year's results reflect the difficult conditions for active programs seeking to identify intrinsic value that is not reflected in securities' current prices. Market pricing of securities was dominated by fluctuating overall sentiment, as the European sovereign debt situation worsened or improved. We remain confident that the methodologies in our programs are sound, and that this will be reflected in longer-term results.

FISCAL 2012 ACTIVITIES

PMI's primary focus in fiscal 2012 was improving its processes and technologies to enhance decision-making and efficient trading in scalable programs, while extending its scope in a limited number of areas. To fulfill its broad mandate and wide variety of active programs, PMI continued to deepen its team by adding 29 staff to close the year with a complement of 154. In keeping with CPPIB's broader engagement across the globe, PMI has expanded its global reach by adding two staff in the Hong Kong office, and establishing a number of new external manager relationships with emerging markets mandates. This year, CPPIB was one of a limited number of financial organizations approved by the China Securities Regulatory Commission as a counterparty under China's Qualified Foreign Institutional Investor program, for an initial maximum investment quota of $100 million. Approval enables CPPIB to buy and sell shares of Chinese companies listed on China's mainland stock exchanges in Shanghai and Shenzhen.

Substantial work has continued on information technology enhancement to streamline end-to-end trading processes and to meet ever more detailed regulatory requirements, including those arising from the U.S. Dodd-Frank legislation. Further, PMI has appointed two major financial institutions to provide equity prime brokerage services, which will deepen our access to publicly-listed securities and allow us to better execute our long/short and overlay programs.

The responsibilities and activities of PMI's six groups are described below.

Global Capital Markets

The Global Capital Markets group (GCM) delivers two important services critical to the efficient management of public markets assets, the largest component of the Fund:

1. Management of the passive component of the portfolio against its targeted market and currency exposures and benchmark indices, balancing the minimization of transaction costs against tight tracking with benchmarks' returns. This activity also encompasses the disciplined ongoing rebalancing of the total portfolio and the market-sensitive transactions needed when major private investments are funded.
2. Provision of the most price-effective and timely execution services for active programs within PMI. This activity is critical to enhancing value-added in those programs through efficient execution.

In fiscal 2012, the annual return difference between the passive portfolio and its benchmarks (which carry no costs) was a positive 26 basis points. This resulted in value-added of $288 million to the total Fund. Going forward, GCM will further refine its management of the passive portfolio while actively developing additional capabilities to better measure and reduce transaction costs in all public markets programs.

Short Horizon Alpha

The Short Horizon Alpha (SHA) group was formed in late fiscal 2011, with a mandate to seek value-added through active trading strategies that have a typical investment horizon of under six months. The group comprises 15 professionals with diverse backgrounds who manage four distinct strategies. These strategies seek to profit from arbitrage opportunities and relative value divergences among similar securities in all major markets. SHA continues to build capabilities, to further develop risk-based portfolio construction techniques and refine allocations among strategies as prevailing market regimes change.

Often dominated by unpredictable political decisions, particularly in Europe and the U.S., market conditions were difficult for systematic strategies over the past year. Market liquidity also reduced as banks and dealers prepare for major regulatory changes such as the Dodd-Frank legislation, the "Volcker rule" affecting proprietary trading, and increased capital requirements associated with the Basel III accord. Nevertheless, SHA's strategies proved quite robust through the U.S. credit rating downgrade and the troubles in the Euro zone.

Global Corporate Securities

Global Corporate Securities (GCS) seeks to add value through active bottom-up equity security selection, either directly or via derivatives when appropriate. Portfolios are constructed to balance long and short positions, optimally structuring the portfolio to maximize returns for a given level of overall risk. CPPIB's structural advantage as a long-horizon investor differentiates us from many long/short managers by allowing us to target longer-term drivers of excess returns, and to avoid excessive trading in pursuit of short-term gains.

With a longer-horizon view of two to five years, the group employs two complementary approaches – fundamental and quantitative-based investing. Fundamental investing focuses on company-specific factors integral to achieving long-term success. Quantitative investing focuses on broader drivers of returns that have been shown to be predictive of aggregate portfolio returns over time.

The group's activities in fiscal 2012 placed heavy emphasis on the ongoing development and research of each of these approaches, establishing a portfolio management structure that allows for testing and enhancing their distinct effectiveness. We now manage quantitative programs in Canada, U.S., Europe and Japan, as well as global fundamental portfolios spanning the major industry sectors.

Conditions were difficult this year for stock selection by either approach. Markets were dominated by politics and the uncertain outlook for developed economies, resulting in fluctuating "risk-on, risk-off" market sentiment and a strong tendency for most stocks to move together rather than differentially. However, portfolio factors related to value and quality continued to be predictive of future returns, and CPPIB's long horizon provided us the opportunity to remain disciplined and achieve modest gains despite these challenging conditions.

Global Tactical Asset Allocation

Global Tactical Asset Allocation (GTAA) pursues value-added over a multi-year horizon by identifying relative strengths that arise within and across equity, fixed income, currency, commodity and volatility markets. In each strategy, we buy markets or asset classes with high risk-adjusted expected returns, and correspondingly sell those with the opposite assessment based on our valuation, economic environment and market sentiment indicators. The process is founded on a systematic integration of two well-known approaches: fundamental macro and quantitative research. The GTAA group designs, tests and builds predictive models using macroeconomic and market factors, blending rigorous research with a strong element of experienced judgment in the design and implementation of these models. GTAA's primary research focus is on longer-horizon views, while shorter-horizon insights allow the group to better manage the macro risks and changes in economic conditions.

The GTAA group continues to deepen its team. This year four senior investment professionals joined us from highly regarded global organizations, with the group's total complement of 24 now bringing experience from 10 international money management firms, six central banks and several other financial organizations such as commercial banks and broker/dealers. On a daily basis, the group currently assesses the expected risk and returns of over 80 markets and commodities through models analyzing over 7,000 data series and a qualitative assessment of long-term macroeconomic fundamentals. Integrating these signals, GTAA currently manages six investment programs: developed market currency selection; emerging market currency selection; country equity selection (now extended to include four major emerging market countries); developed bond market selection; tactical asset allocation among equities, bonds, commodities and cash; and introduced this year, commodities selection.

Similar to other PMI groups, GTAA activities are distinguished from those of other investment managers by CPPIB's strategic advantages, which allow the group to persevere with sound strategies through difficult conditions while commercial firms may be forced to close positions at the worst possible time. Fiscal 2012 was one such adverse environment, in which many systematically-based hedge funds have suffered through the lack of discrimination among markets, collectively dominated by external shocks rather than intrinsic values. Likewise, this year was a disappointing year for GTAA with substantial negative returns. We do, however, believe that our long-term value-oriented approach will pay off in the long run and we are continuing to pursue this strategy, while at the same time, constantly refining our model and process to adapt to changing market conditions.

Relationship Investments

Relationship Investments (RI) considers significant direct minority investments in public companies, providing strategic capital in order to generate meaningful longer-term outperformance relative to their peers. Our investments are typically of $100 million to $1 billion for 5–25% ownership positions, accompanied by an aligned and active ongoing relationship with management teams and boards of directors. The group focuses particularly on transformative growth opportunities, situations involving the strengthening of balance sheets, or transition of ownership blocks. Such transactions typically appeal to mid- and smaller-sized companies that value a patient and supportive strategic investor seeking to partner in growth with them.

RI closed its first investment in fiscal 2010 – a $350 million commitment to Progress Energy Resources Corp – which has been followed by further investment in the company. In fiscal 2012, the group reached out to more than 150 candidate companies, performing full due diligence and presenting terms to only a select few. A major commitment of time and due diligence is needed for both CPPIB and the company to conclude that their objectives and potential fully align with our partnership and investment criteria. In times of buoyant equity markets or readily available debt financing, as earlier in this fiscal year, companies may prefer more conventional means of raising capital. However, during more stressful conditions,

CPPIB's strengths of reputation, capital availability and long-term horizon can become highly valued. As a result, CPPIB was financially engaged this year with seven companies, including:

> An active participation in the Maple Group Acquisition Corporation with other major Canadian financial institutions, seeking to acquire TMX Group Inc. (owners of the Toronto Stock Exchange) and further combine its business with CDS and Alpha Group to create an integrated exchange and clearing house company; and
> An investment of $80 million in Genivar Inc., a leading international engineering consultancy and services firm headquartered in Quebec. This private placement gives CPPIB nearly 10% ownership of the firm, alongside a similar investment by the Caisse de dépôt et placement du Québec, and an opportunity to support further growth opportunities for the company.

Since establishing its focus on direct investing in fiscal 2010, the RI group has invested more than $475 million, and grown to number 12 professionals with a wide array of backgrounds and experience. This has enabled the group to plan an expansion of staff to Hong Kong and thus help broaden its reach to consider investments in companies in Asia. In that region, we believe that, over time, CPPIB's long-term relationship-based approach will be particularly appealing to the business cultures and climates of the region's fast-growing economies.

External Portfolio Management

External Portfolio Management (EPM) maintains a portfolio of externally-managed funds and separate accounts that complement those undertaken internally and seek to complete our coverage of appropriate active management strategies in public markets. These "completion strategies" offer attractive, sustainable value-added with low correlation to the results of internal investment programs. These "completion strategies" must also be sufficiently scalable to be meaningful for CPPIB's current size and future growth.

EPM differs from a traditional fund-of-funds program in that there is no intention to aggressively shift emphasis and assets between strategies and managers – our valued partners with whom we plan to maintain strong long-term relationships. In fiscal 2012, EPM grew from 17 to 24 professionals, including two in Hong Kong. The group is organized under two activities:

> Due Diligence and Portfolio Management – identification of external partners and products by specialist teams focused on (i) corporate securities selection through both quantitative and fundamental approaches; (ii) macro strategies such as currency, commodities and insurance-linked securities; and (iii) emerging markets in Asia; and
> Strategy – monitoring, analysis, construction and evolution of the overall EPM portfolio.

During the year, despite unrewarding conditions for many strategies, notional assets directed by EPM have grown from $7.3 billion to $10.4 billion, while increasing return-seeking active risk exposures by 13%. This year EPM closed down two mandates, but funded 19 new or extended mandates. Extensions were made primarily in credit-related strategies, while major new investment areas include active commodities trading, insurance-linked securities and increased exposure to opportunities in Asia. The portfolio now includes 33 managers; they direct 41 diverse mandates, up from 30 at the end of fiscal 2011.

POLICY ON RESPONSIBLE INVESTING

Environmental, social and governance (ESG) factors will significantly influence the long-term financial performance of almost every corporation in which we invest. These factors represent costs to corporations, but also opportunities for long-term value creation. We believe that high standards of responsible corporate behaviour can have major positive effects. Conversely, ESG risks that are not addressed will eventually exact their toll. An essential element of our investment philosophy is to assess ESG factors through the lens of their effect on risks and potential returns for the Fund. These are the cornerstones of CPPIB's *Policy on Responsible Investing*, guiding our own governance and commitment.

Our Responsible Investing activities fall into three areas. First, we engage with selected companies in our portfolio – through proxy voting and disclosure of our intentions; through communicating directly with management and boards; and by working with investor coalitions. In all cases we seek to enhance corporate disclosures and management practices as they relate to ESG factors relevant to those companies. Second, we encourage development of best practices and research into the long-term impact of ESG factors. Third, we directly consider and evaluate ESG factors in our investment due diligence, monitoring and management.

We believe that engagement with corporate management is the most effective strategy for large institutional investors with a long investment horizon. This is more powerful when conducted in collaboration with other funds having similar objectives and concerns, such as our support of the Carbon Disclosure Project (and its extension to water) and the Extractive Industries Transparency Initiative, as well as our work with the Canadian Coalition for Good Governance. Engagement activities are detailed in the annual *Report on Responsible Investing* that is available on our website. Every year we review our entire portfolio to identify companies and issues for engagement. Currently, our focus areas are climate change, extractive industries (oil and gas and mining), water and executive compensation.

We continue to enhance the integration of ESG factors explicitly into our investment processes. The Responsible Investing team of specialists is part of the fundamental research group within GCS. This facilitates analysis and incorporation of ESG factors in our public market investments. The team also assists in the evaluation of applicable ESG factors by our Private Investments and Real Estate Investments departments, both in their initial due diligence on potential opportunities, and in the subsequent management of their long-term investments.

Our approach to Responsible Investing is consistent with the United Nations' *Principles for Responsible Investment* (UN PRI). We helped formulate these principles and were one of the original signatories in 2006. Today, UN PRI signatories represent US$30 trillion in institutional investor assets. CPPIB has consistently ranked highly in the periodic evaluations by UN PRI of institutions' responsible investing activities.

PRIVATE INVESTMENTS

The Private Investments (PI) department invests in private equity, infrastructure and private debt. These markets are in some cases comparable in size to their public equivalents, and are well-suited for patient, expert investors. We seek to harvest the return premiums expected for investing in less liquid and longer-term assets, and for meeting the particular financing needs of the entities to which we provide capital. Further, with our expert partners, we can generate significant skill-based additional returns in a wide variety of ways:

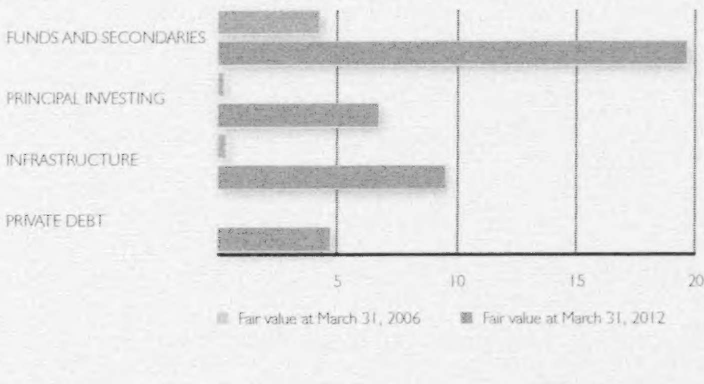
> At the decision to invest, through access to the best opportunities, superior information, unique insights and expert structuring of transactions;

> During our holding period for each investment, through better financing, enhanced governance and improvement in assets, operations and profitability; and

> Upon exit from the investment, through selection of the optimal means and timing, and on favourable terms.

Our private investment assets grew from $35.3 billion at the end of fiscal 2011 to $40.4 billion at the end of fiscal 2012. All net income is consolidated into the Fund as it is received, so this net growth comprises new investments funded at $9.9 billion (including draws on prior year commitments), plus revaluations of existing investments, less income received and capital realizations. Over the past six years, Private Investments department assets have grown to substantial importance, now representing approximately 25% of the total portfolio, and have also become more widely diversified by both type and geographic location. While our early investments were made entirely through funds, our developed internal expertise has led to new investments increasingly and cost-effectively being made on a direct basis and in larger amounts. Nevertheless, partnerships with leading fund managers will remain critical to our success.

SIZE OF PRIVATE INVESTMENTS BY GROUP
($ BILLIONS)



The first table below summarizes returns in absolute terms, with rates of return calculated on an unhedged, time-weighted basis. The second table shows dollars of value-added relative to the corresponding investments had they earned the returns on relevant benchmark indices.

PRIVATE INVESTMENTS	Fiscal 2012 %	Fiscal 2011 %
RETURNS		
1-year excluding foreign currency impact	**10.8**	23.6
1-year	**11.9**	16.6
1-year benchmark	**6.2**	11.5

PRIVATE INVESTMENTS	Fiscal 2012 $ billions	Fiscal 2011 $ billions
CONTRIBUTION TO PORTFOLIO VALUE-ADDED[1]		
1-year	**1.7**	1.3
4-year	**-1.0**	0.0
Since inception[2]	**2.7**	1.0

[1] Foreign currency fluctuations have no impact on departmental value-added. See page 26 for more details.
[2] CPP Reference Portfolio inception date: April 1, 2006.

The results reflect another strong year for our private investments, particularly from the private equity component, combining strong income flows with moderate valuation gains. These results substantially outpaced corresponding public equities.

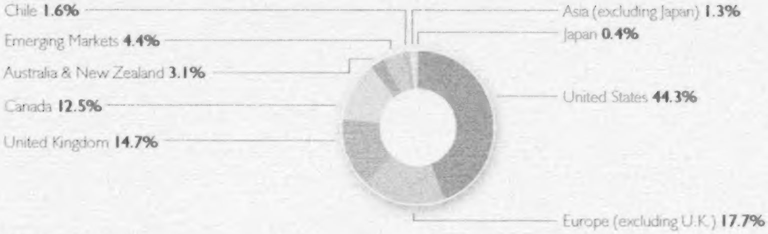
FISCAL 2012 ACTIVITIES

In the early part of fiscal 2012, the increased availability of financing and signs of growth in the U.S. economy encouraged a spate of private equity activity, but by the fall caution was reappearing. Nevertheless, CPPIB's global reputation and our strong partnerships ensure continual access to a wide variety of attractive opportunities. For private debt investments, opportunities were plentiful and, despite the dislocations caused by the S&P downgrade of the U.S. long-term credit rating and continuing European difficulties, entry to and exit from select investments was favourable as the year progressed.

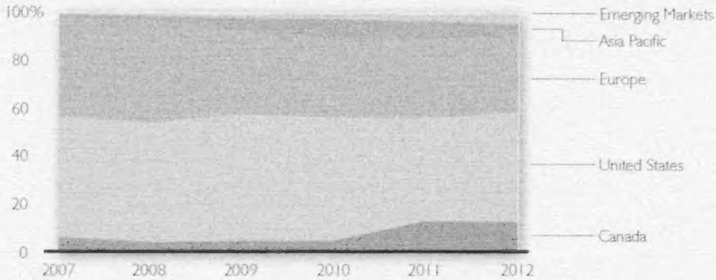
While adhering to our disciplined selection process, in fiscal 2012, we were able to make commitments to new investments representing $8.9 billion. As part of our long-term strategy to grow active programs in emerging markets, approximately 10% of these commitments were made in these markets. We continue to examine new areas for private investment, and this year saw further investments in royalty cash flows from intellectual property. Private Investments staff increased by 23 to 131 at year end, in line with our plans to facilitate scalable growth through larger individual investments and a wider range of active programs. Twenty-four PI staff are now located in London, and nine in Hong Kong, furthering our commitment to global investing. Also, we have commenced building a team to invest in agricultural land in selected countries. Particular growth again occurred in the Private Debt team, both in Toronto and London, with its present complement of 22 professionals now managing investments of $4.7 billion.

PRIVATE INVESTMENTS – GEOGRAPHIC DIVERSIFICATION

As at March 31, 2012

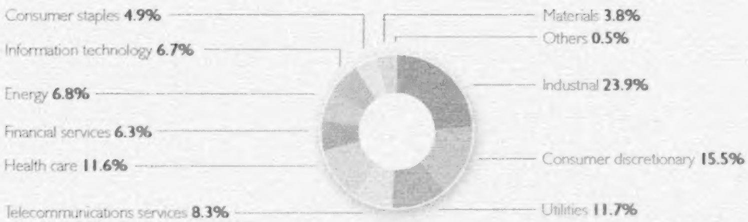


REGIONAL DISTRIBUTION OF PRIVATE INVESTMENTS



PRIVATE INVESTMENTS BY SECTOR

As at March 31, 2012



Private Investments is organized into five specialized groups: Funds and Secondaries, Principal Investing, Infrastructure, Private Debt and, separately formed in this fiscal year, Asset Management. Led by an experienced external hire as Vice-President, Asset Management, this new specialized group can focus exclusively on adding value through more active involvement in the governance, management and ongoing enhancement of our direct private equity and infrastructure investments, which have more than doubled in number and size over the past three years. As a result, professionals in our Principal Investing and Infrastructure teams can devote a greater proportion of their time to researching new opportunities and the acquisition and disposition of investments.

FUNDS AND SECONDARIES

Funds and Secondaries (F&S) is the original segment of our private investing activities, and still the largest. This group identifies and commits capital to top-tier managers of private equity funds around the world. Leveraging our inherent information and relationship advantages, F&S is also active in the secondary market, buying limited partnership interests from other institutions on a privately negotiated basis. Further, benefiting from its strong partner relationships, F&S provides a flow of opportunities for direct investing that are presented to other PI groups.

Fundraising activity by private equity firms was in full force in fiscal 2012, but we remained highly selective with an emphasis on broadening geographical diversification. F&S currently has relationships with 82 fund managers. Given our scale, fund investments are primarily in large and mid-market buyouts rather than early-stage or venture capital. The group's portfolio increased to $19.6 billion in 163 funds at fiscal year-end 2012, up from $17.1 billion in 148 funds last year. In addition, we have accumulated commitments of up to $11.3 billion for further investment if called for by fund managers.

Exemplifying the global and sectoral range of our new investments, significant fund commitments in fiscal 2012 included:

> €350 million (C$466 million) to BC European Capital Fund IX. We are engaging directly for the first time with its manager, BC Partners, to benefit from their expertise in large-size buyouts in Europe; we have also committed over €350 million (C$466 million) to an existing partner, Apax Partners, which is focused on large-firm buyouts in Europe and North America;

> A$145 million (C$150 million) to Archer Capital Fund V, again a new relationship with an experienced and successful partner, to access mid-market buyouts in Australia and New Zealand;

> US$100 million (C$100 million) to HitecVision Fund VI, entering a relationship with an established Norwegian firm focused on offshore oil and gas services, and exploration and production companies, operating primarily on the Norwegian Continental Shelf; and

> US$200 million (C$200 million) to Hony Capital Fund V, one of China's leading private equity funds focused on growth and control investments; and US$240 million (C$240 million) to Actera Partners II, a fund focused primarily on mid-market buyouts in Turkey.

Secondaries saw considerable activity in fiscal 2012, in both new acquisitions and sales of legacy holdings. Our Secondaries portfolio grew from $2.0 billion to $2.7 billion in total exposure. Favourable opportunities continue to be presented for CPPIB to acquire seasoned portfolios at attractive prices. The market is driven by financial institutions restructuring their exposures to private equity and/or create more liquidity in their portfolios. The total global secondary market reached a record-breaking $25 billion in 2011 with CPPIB's market share representing approximately 5% of this market. Fiscal 2013 is expected to bring still greater focus on the secondaries market.

PRINCIPAL INVESTING

This group makes direct investments in private companies through co-sponsorships and co-investments. Outside Canada, these investments are all undertaken alongside general partners who are experts in the respective area, and with whom we have developed a strong existing relationship through our F&S team. Each investment is of significant size, typically C$200 million and up. Our comparative advantages are CPPIB's scale and long time horizon, allied with a disciplined but flexible process undertaken by dedicated, sophisticated professionals that can meet the timing requirements of our partners. In the first half of the year, widespread availability of debt financing led to a somewhat over-priced market. As the year progressed with increasing uncertainty, the environment improved for CPPIB's selective approach, albeit with more conservative assumptions for corporate growth.

At year end, we held 38 direct investments valued at $6.7 billion compared with 37 investments valued at $5.6 billion one year earlier. In total we invested in five new companies and sold our positions in three others. New investments in fiscal 2012 totalled approximately $1 billion, with major acquisitions in several different sectors:

> Kinetic Concepts, Inc. – This represents a major take-private transaction of a leading global medical technology company alongside a consortium comprising of CPPIB, Apax Partners and the PSP Investment Board. The total transaction value for the consortium was approximately US$6.1 billion (C$6.2 billion), making it the second largest global private equity transaction in calendar 2011;

> 99¢ Only Stores – We acquired U.S.-based discount retailer 99 Cents Only Stores alongside Ares Management LLC and the Gold/Schiffer family for a total transaction value of US$1.6 billion (C$1.6 million);

> Quantum Utility Generation – CPPIB provided a line of equity capital up to US$200 million (C$201 million), contributing to this U.S. company's investment platform focused on power generation and restructuring;

> Teine Energy Ltd. – We committed to a $204 million investment in this Calgary-based junior exploration and production company, and have to date provided funding of $169 million. Teine has established itself as an industry leader in development of the Dodsland Viking light oil resource in Saskatchewan; and

> With Silver Lake Partners, CPPIB also made its first direct investment in China of US$100 million (C$102 million).

Among existing investments, this year we funded a further $193 million of growth capital to AWAS, one of the largest aircraft leasing companies in the world, in which we have been a significant investor since 2006.

A significant transaction in fiscal 2012 was the sale of Skype Communications to Microsoft Corporation for US$8.5 billion. This sale yielded a significant return of approximately US$939 million (C$964 million) for CPPIB on our initial capital investment of US$300 million (C$329 million). We also held a significant indirect stake in Skype through our F&S investment in Silver Lake Partners fund. While longer-term holdings are our going-in intention for most private investments, if sale opportunities are sufficiently attractive we are prepared to realize early capital gains for the benefit of the Fund.

In fiscal 2013, we will again seek major transactions that ensure our close involvement in due diligence, negotiation of terms and ongoing management of the asset. We intend to broaden diversification of direct investments into Asia, but the long-term attractiveness of this region will always be balanced against our risk-adjusted return criteria for specific investments. Further, we will continue to extend this group's focus on natural resources, and in particular expect to make CPPIB's first investment in agricultural land.

INFRASTRUCTURE

The Infrastructure team invests in well-established infrastructure assets, such as regulated assets and those assets benefiting from long-term contractual relationships or concession agreements, with a focus on steady, predictable cash flows. In the six years since inception, the Infrastructure group's portfolio has grown to $9.5 billion in 12 investments as at March 31, 2012. The portfolio includes a number of gas and electricity transmission networks, water utilities, toll roads, and communications towers.

During the year, we closed our first investment in Norway, with the purchase of a 24.1% stake in Gassled Joint Venture for a total consideration of $3.2 billion (including debt), in a consortium with Abu Dhabi Investment Authority (ADIA) and Allianz Capital Partners GmbH. The Gassled acquisition was done via Solveig Gas Norway AS, a holding company which is approximately 45% owned by CPPIB, 30% by Allianz Capital Partners and 25% Infinity Investments SA, a wholly-owned subsidiary of ADIA. Established in 2003, Gassled is an unincorporated joint venture which owns the majority of the gas transport infrastructure on the Norwegian Continental Shelf. It is a core strategic infrastructure asset in the Northwestern European energy landscape. Gassled is expected to benefit from growth in European gas demand and Norway's long-term position as a key supplier of gas to Europe.

During fiscal 2012, the Infrastructure group continued to actively evaluate a robust pipeline of potential opportunities and significant resources have been devoted to forthcoming privatization opportunities as well as large acquisitions in new markets. Although privatization schedules have slipped, partly due to uncertainties and reverberations arising from the sovereign debt crisis, we remain optimistic that these transactions will transpire.

Shortly after fiscal year end in April 2012, we announced an agreement to acquire from Atlantia Group a 49.99% interest in Grupo Costanera, for an equity investment of 560 billion Chilean pesos (C$1.14 billion). Grupo Costanera is the largest urban toll road operator in Chile and owns a portfolio of five major urban toll roads that span a 188-kilometre network. Four of the toll roads are located in the Santiago metropolitan region including two major commuter motorways, Costanera Norte and Vespucio Sur. The fifth toll road is located on the central coast of Chile. This investment represents our second major infrastructure investment in Chile.

PRIVATE DEBT

This group is engaged in debt financing across the capital structure, including term loans, private high-yield bonds, mezzanine lending and other solutions for corporations. The primary areas of focus remain North America and Europe, moving among sectors as opportunities arise or close due to market conditions and the appetites of other major lenders. This fiscal year marked growing investment in Asia, and a commitment for expansion of the strategy to seek opportunities in Latin America. Also, the team formed in fiscal 2011 to make investments in intellectual property royalties was able to make further investments that meet our criteria, while also declining others where aggressive bidding by competitors pushed prices beyond our target ranges.

With a deeper international team now numbering 22 including staff in London, we were able to close 21 new investments in nine different countries, funding approximately $3.9 billion. Geographic exposures are becoming more balanced, with 51% of the portfolio in North America, 43% in Europe and 6% in Asia. We are also better positioned to participate more actively in the secondary market as our portfolio matures and our market profile becomes more prominent. This year, we were active in both acquiring and exiting positions at attractive prices as the environment changed repeatedly during a turbulent on/off year for credit markets. After sales and revaluations of holdings, assets again grew substantially, closing the year at $4.7 billion, up substantially from $3.1 billion at the previous fiscal year end.

Included in the total is $474 million in four intellectual property investments, up from a single investment of $38.9 million at the start of the year. CPPIB's team has achieved recognition in the pipeline of access to new opportunities, with several under active consideration.

In fiscal 2013, we again expect significant net growth in an increasingly diversified Private Debt portfolio. While the multi-faceted corporate financing market will remain volatile, this presents opportunities for the group to capitalize on CPPIB's structural advantages and reputation as a reliable and sophisticated source of financing.

REAL ESTATE INVESTMENTS

The mandate of the Real Estate Investments (REI) department is to build and manage a global portfolio of diversified high-quality properties – ones that are expected to deliver stable and growing long-term cash flows, and retain their relative value across multiple business cycles. Working with strong partners who have the deep, local expertise necessary for success, we act as an investor and portfolio manager, not as a real estate operating company. Following our original major investments in Canada, the department has invested significantly in the U.S., Europe, Australia and also selected developing countries including Brazil, Mexico, Turkey and China. Net of mortgages on the properties, portfolio equity value has grown very significantly, from $11.5 billion at the end of fiscal 2011 to a current $18.7 billion representing 11.6% of the total Fund. This was a year when our strong reputation as an experienced partner brought us many opportunities; our net new investments of $5.9 billion (including retirement of $0.6 billion of mortgage debt) were more than 67% higher than in any previous year.

Also, the Private Real Estate Debt program established at the end of fiscal 2010 broadened this year into providing structured junior financing in select markets. This program has grown from $0.6 billion in first mortgages at the end of last fiscal year to a current level of $1.6 billion in both investment grade and non-investment grade debt that is backed by prime commercial property assets in the U.S. and U.K. The $1.6 billion is included in the total real estate net assets of the $18.7 billion mentioned above.

The first table below summarizes returns in absolute terms, with rates of return calculated on an unhedged time-weighted basis. These returns are net of transaction costs and other significant expenses related to the growth of the portfolio. The second table on page 57 shows dollars of value-added relative to the corresponding investments had they earned the returns on relevant benchmark indices.

REAL ESTATE INVESTMENTS	**Fiscal 2012** %	Fiscal 2011 %
RETURNS		
1-year excluding foreign currency impact	**12.1**	14.4
1-year	**13.1**	13.6
1-year benchmark	**13.5**	13.1

REAL ESTATE INVESTMENTS	**Fiscal 2012 $ billions**	Fiscal 2011 $ billions
CONTRIBUTION TO PORTFOLIO VALUE-ADDED[1]		
1-year	**0.1**	0.1
4-year	**0.0**	0.0
Since inception[2]	**0.4**	0.3

[1] Foreign currency fluctuations have no impact on departmental value-added. See page 26 for more details.

[2] CPP Reference Portfolio inception date: April 1, 2006.

The strong positive absolute returns reflect a combination of steady income generation and significant valuation gains in all areas.

The program continues to meet the fundamental objective of generating a steady flow of net cash income to the CPP Fund – $0.9 billion in fiscal 2012, up from $0.5 billion in the previous year.

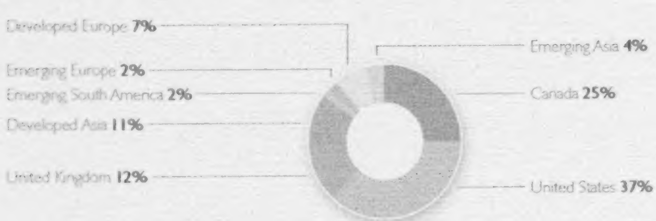
FISCAL 2012 ACTIVITIES

Fiscal 2012 was exceptionally active for REI, with $5.4 billion in 29 new acquisitions and $0.4 billion drawn on commitments made in prior years.

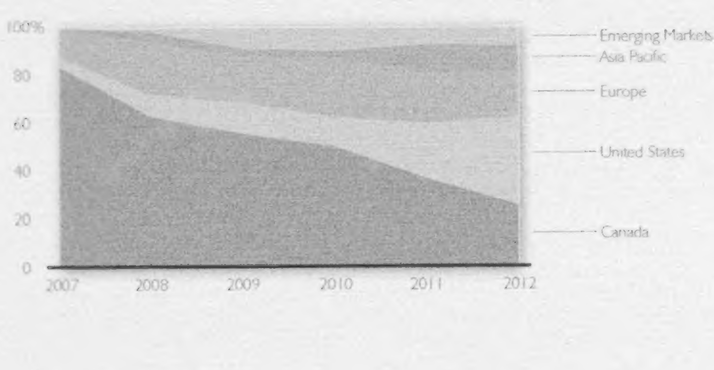
The increase in our global real estate presence and stature is providing us access to some of the largest and highest-quality direct investment opportunities that arise across the world. While direct investments tend to be large, we can exert greater control and achieve sufficient diversity for total real estate portfolio risk to be prudent without the burden of fund structure fees and expenses. Our equity real estate strategy continues to have a primary focus on key global developed markets, with an emphasis on further building relationships and scale in selected developing countries. We also continue to expand the depth and skills of our team to manage a rapidly growing and increasingly diverse portfolio. The assets managed by REI are broadly diversified, both geographically and by sector, as shown below.

REAL ESTATE INVESTMENTS – GLOBAL DIVERSIFICATION

As at March 31, 2012



REGIONAL DISTRIBUTION OF REAL ESTATE INVESTMENTS



REAL ESTATE INVESTMENTS BY SECTOR DIVERSIFICATION
As at March 31, 2012

We are primarily focused on the world's most transparent markets: North America, U.K., Western Europe and Australia. However, selected emerging markets should form an increasing component of the portfolio due to their long-term growth prospects and need for modern real estate development. Investing in these markets requires particular discipline and selectivity, as some areas can become over-built or over-priced in the midst of general exuberance. The expertise of local partners is even more critical here than for developed markets. Emerging market investments accounted for 3.9% of our new commitments in this fiscal year, and this can be expected to grow as conditions permit.

This year, another feature of our broadening strategy was a growing participation in high-quality development or redevelopment activities – approximately 17.6% of this year's commitments fell into this category. Much of this development was in emerging markets where there is a scarcity of fully developed and mature assets for sale and investments are often made over several years. In developed markets, opportunities can arise due to scarcity of capital willing to take on major longer-term projects and because a higher level of expertise is required for successful execution; these characteristics align well with several of CPPIB's comparative advantages. Development properties now represent 3.8% of the equity value of our real estate portfolio and will likely always remain a small proportion of the portfolio given our primary focus on stable, income-generating properties.

With the substantial growth of our real estate portfolio, REI's staff complement increased from 41 people to 50, particularly strengthening the London and Hong Kong offices. For its equity investments, the department is now organized in three groups: Americas, Europe and Asia, having split our former International team to further the planned specialization of teams by regions. Each group makes both developed and emerging markets investments in their respective areas. In fiscal 2012 we have also strengthened the ongoing asset and portfolio management aspects of our operation, within each of the regional and sector teams.

AMERICAS

This year saw a continuation of the expansion of our U.S. and Canadian presence in three distinct sectors – retail, multi-family residential and office. Major investments included:

> Acquisition of a 45% interest in a portfolio of 10 U.S. regional malls and two redevelopment sites, located mostly in California, from Australia-based Westfield Group, a longstanding partner. CPPIB's equity investment of US$1.8 billion (C$1.8 billion) is our largest real estate investment globally to date, and is consistent with our retail sector strategy of investing in dominant regional malls with best-in-class operators. With the completion of this purchase, CPPIB becomes one of the largest institutional owners of regional shopping centres in the U.S.;

> Purchase of a 37% interest in the Mayflower partnership for US$350 million (C$339 million). This partnership with Simon Property Group Inc. and TIAA-CREF owns a portfolio of 13 regional shopping malls primarily in the New England area;

> Completed an investment in a prime Manhattan office property at 10 East 53rd Street representing a total gross asset value of US$114 million (C$114 million). This expands our real estate portfolio in New York City to five prime office buildings;

- Acquisition of interests in two shopping malls in Brazil: a 24.5% interest in Botafogo Praia Shopping centre in Rio de Janeiro for R$68 million (C$40 million) alongside Ivanhoé Cambridge and a 15% interest in Shopping Iguatemi Salvador, located in the northeast region of the country, for R$145 million (C$85 million). Our Brazilian portfolio now includes three retail properties, two office developments and eight industrial projects;
- Two major development projects with Oxford Properties. One is to develop RBC WaterPark Place, a 930,000-square-foot Class AAA LEED (Leadership in Energy and Environmental Design) Gold-certified office tower in downtown Toronto and a Vancouver development at 1021 West Hastings Street, a 275,000-square-foot, 35-storey Class AAA LEED office tower.

EUROPE

We made some major but selective investments in Europe:

- Formation of a 50/50 joint venture with Land Securities Group PLC, the largest U.K. REIT, to own, develop and transform the 5.5 acre Victoria Circle site in central London. Located opposite London's second busiest transportation hub, it is anticipated that the five new buildings to be completed over the next six years will provide 910,000 square feet of residential, offices and public amenities with an estimated value of over £1 billion;
- Acquisition for €270 million (C$371 million) of a 50% interest in CentrO Oberhausen, a premier super-regional shopping and leisure centre near Dusseldorf, Germany, drawing on nearly 12 million people within a 60-minute drive of the complex;
- An agreement with Grosvenor Fund Management for CPPIB to provide up to £190 million (C$292 million) over the next two years to invest in value-add properties in London's West End office market; and
- Completed in October 2011 the acquisition of a 25% interest in Westfield Stratford City shopping centre for £300 million (C$468 million). Located adjacent to the 2012 London Olympics site, Westfield Stratford is a 1.9 million-square-foot retail and entertainment centre.

ASIA PACIFIC

In this fiscal year, several significant commitments were made in the Asia Pacific region:

- CPPIB and Global Logistics Properties Limited, the market leader in modern logistics facilities in China and Japan, formed a joint venture to develop and hold institutional quality facilities, mainly in the Tokyo and Osaka areas of Japan. CPPIB's investment is expected to be US$250 million (C$244 million) over a projected three-year horizon;
- We completed two transactions which expanded our relationship with Australia's Goodman Group: first, acquisition of 50% of Hong Kong Interlink, an industrial facility close to the Hong Kong airport, for C$205 million; and second, a US$250 million (C$257 million) increase in our equity commitment to the CPPIB 80%/Goodman 20% joint venture; and
- Acquired a 50% interest in Northland Shopping Centre for A$455 million (C$470 million). Located in Melbourne, Australia, Northland Shopping Centre is a high-quality retail asset in a key Australian city.

PRIVATE REAL ESTATE DEBT

After this group made its initial investments in first mortgages in fiscal 2011, spreads over high-quality corporate bonds narrowed substantially as traditional lenders' confidence and investment appetite re-emerged. Having anticipated this development, the team turned its focus to junior debt provision in the U.S., U.K. and Germany. This area provides very attractive credit spreads over corporate bonds of comparable quality and term. Our investments are safeguarded by lending only up to conservative loan-to-value ratios and by targeting high-quality properties in countries and sectors where REI is already investing. The team added seven debt investments totaling $0.9 billion in fiscal 2012 secured by prime office and retail properties, bringing the total portfolio at current valuation to $1.6 billion.

REAL ESTATE HOLDINGS AS AT MARCH 31, 2012

PROPERTY	City	Province/ State	Country	Total Gross Leasing Area (sq. ft.)	Ownership Interest (%)
AMERICAS PROPERTIES					
OFFICE PROPERTIES					
Canterra Tower	Calgary	AB	Canada	817,000	50
Guinness Tower	Vancouver	BC	Canada	269,000	50
Marine Building	Vancouver	BC	Canada	174,000	50
Oceanic Plaza	Vancouver	BC	Canada	351,000	50
401 West Georgia Street	Vancouver	BC	Canada	270,000	50
800 Burrard Street	Vancouver	BC	Canada	222,000	50
Constitution Square	Ottawa	ON	Canada	1,054,000	50
Jean Edmonds Towers	Ottawa	ON	Canada	553,000	50
Place de Ville I	Ottawa	ON	Canada	581,000	50
Place de Ville II	Ottawa	ON	Canada	630,000	50
First Canadian Place	Toronto	ON	Canada	2,680,000	25
2 Queen Street E.	Toronto	ON	Canada	464,000	50
One Financial Place	Toronto	ON	Canada	657,000	50
Royal Bank Plaza	Toronto	ON	Canada	1,478,000	50
WaterPark Place	Toronto	ON	Canada	801,000	50
Yonge Richmond Centre	Toronto	ON	Canada	299,000	50
Tour KPMG	Montreal	PQ	Canada	493,000	50
Tabor Center	Denver	CO	USA	707,000	39
US Bank Tower	Denver	CO	USA	520,000	39
Warner Building	Washington	DC	USA	643,000	45
1101 17th Street NW	Washington	DC	USA	216,000	45
1255 23rd St.	Washington	DC	USA	341,000	45
ABA Building (740 15th St.)	Washington	DC	USA	171,000	49
Alhambra	Coral Gables	FL	USA	323,000	49
Datran Center	Kendall	FL	USA	471,000	49
1221 Avenue of the Americas	New York	NY	USA	2,520,000	45
600 Lexington Avenue	New York	NY	USA	304,000	45
100 Broadway Avenue	New York	NY	USA	395,000	33
655 Fifth Ave	New York	NY	USA	49,000	33
10 East 53rd St	New York	NY	USA	389,000	45
Shenandoah Building	McLean	VA	USA	197,000	49
RETAIL PROPERTIES					
RioCan Beacon Hill	Calgary	AB	Canada	528,000	50
Edmonton City Centre (Retail)	Edmonton	AB	Canada	814,000	50
RioCan Meadows	Edmonton	AB	Canada	211,000	50
Pine Centre Mall	Prince George	BC	Canada	483,000	100
Grandview Corners	Surrey	BC	Canada	530,000	50
Hillside Centre	Victoria	BC	Canada	431,000	100
RioCan Centre Burloak	Burlington	ON	Canada	455,000	50
Centre Mall	Hamilton	ON	Canada	381,000	80
Century Centre	London	ON	Canada	98,000	100
White Oaks Mall	London	ON	Canada	691,000	100
Eastgate Square	Stoney Creek	ON	Canada	541,000	100
New Sudbury Centre	Sudbury	ON	Canada	539,000	100
Intercity Shopping Centre	Thunder Bay	ON	Canada	460,000	100
Promenades Cathédrale	Montreal	PQ	Canada	137,000	50
Les Galeries de la Capitale	Quebec City	PQ	Canada	1,451,000	90
Carrefour de l'Estrie	Sherbrooke	PQ	Canada	1,147,000	90
Rancho San Diego	El Cajon	CA	USA	98,000	45
Hasley Canyon Village	Los Angeles	CA	USA	70,000	40
Westfield Topanga	Los Angeles	CA	USA	1,569,000	45
Westfield Santa Anita	Los Angeles	CA	USA	1,303,000	45
Westfield Culver City	Los Angeles	CA	USA	1,052,000	45
Del Mar Town Centre	San Diego	CA	USA	273,000	49
Morena Plaza	San Diego	CA	USA	411,000	45
Westfield Plaza Bonita	San Diego	CA	USA	1,037,000	45
Westfield Horton Plaza	San Diego	CA	USA	758,000	45
Westfield Mission Valley	San Diego	CA	USA	1,577,000	45
Westfield North County	San Diego	CA	USA	1,255,000	45
Blossom Valley	San Jose	CA	USA	93,000	40
Westfield Oakridge	San Jose	CA	USA	1,139,000	45
Redhawk Town Center	Temecula	CA	USA	345,000	45
Crystal Mall	Waterford	CT	USA	783,000	15
Oakwood Plaza North	Hollywood	FL	USA	694,000	45
Oakwood Plaza South	Hollywood	FL	USA	177,000	45
Willa Springs Shopping Center	Orlando	FL	USA	90,000	40
Pier Park	Panama City Beach	FL	USA	841,000	34

PROPERTY	City	Province/ State	Country	Total Gross Leasing Area (sq. ft.)	Ownership Interest (%)
RETAIL PROPERTIES, continued					
Dunwoody Hall	Atlanta	GA	USA	90,000	40
Auburn Mall	Auburn	MA	USA	588,000	30
Atrium Mall	Chestnut Hill	MA	USA	209,000	37
Liberty Tree Mall	Danvers	MA	USA	647,000	37
Cape Cod Mall	Hyannis	MA	USA	726,000	30
Solomon Pond Mall	Marlborough	MA	USA	887,000	30
Emerald Square	North Attleboro	MA	USA	1,023,000	30
Northshore Mall	Peabody	MA	USA	1,584,000	30
Square One Mall	Saugus	MA	USA	930,000	30
Greendale Mall	Worcester	MA	USA	311,000	30
Westfield Annapolis	Baltimore	MD	USA	1,462,000	45
Plaza Frontenac	St. Louis	MO	USA	480,000	45
St. Louis Galleria	St. Louis	MO	USA	1,200,000	26
Maynard Crossing	Raleigh	NC	USA	123,000	40
Mall of New Hampshire	Manchester	NH	USA	811,000	30
Mall at Rockingham Park	Salem	NH	USA	1,020,000	15
Richland Marketplace	Quakertown	PA	USA	400,000	45
Bethany Park Place	Dallas	TX	USA	99,000	40
Shiloh Springs	Dallas	TX	USA	110,000	40
Alden Bridge Village Center	Houston	TX	USA	139,000	40
Pentagon Centre	Pentagon City	VA	USA	337,000	45
Apple Blossom Mall	Winchester	VA	USA	440,000	37
Westfield Southcenter	Seattle	WA	USA	1,718,000	45
MULTI-FAMILY PROPERTIES					
Palazzo Westwood Village	Los Angeles	CA	USA	414,000	49
North Point	Cambridge	MA	USA	385,000	40
Woodland Park	Herndon	VA	USA	393,000	40
TOTAL AMERICAS				**58,027,000**	
INTERNATIONAL PROPERTIES					
OFFICE PROPERTIES					
Le Blenot Office Building	Suresnes		France	232,000	94
LaSalle German Fund	Munich		Germany	2,518,000	43
10 Gresham Street	London		UK	260,000	70
55 Bishopsgate	London		UK	193,000	80
Michael House	London		UK	17,000	80
RETAIL PROPERTIES					
Northland Shopping Centre	Melbourne		Australia	994,000	50
CFSGAM Property Retail Partnership	Various		Australia	3,008,000	39
Botafogo Praia Shopping	Rio de Janeiro		Brazil	167,000	24.5
Iguatemi Salvador	Salvador, Bahia		Brazil	840,000	15
Hürth Park	Cologne		Germany	651,000	80
CentrO Shopping Centre	Oberhausen		Germany	1,084,000	50
Forum Ankara	Ankara		Turkey	830,400	26
Forum Aydin	Aydin		Turkey	315,000	26
Forum Camlik	Denizli		Turkey	342,000	26
Forum Istanbul	Istanbul		Turkey	1,850,000	26
Forum Kapadokya	Kapadokya		Turkey	253,000	26
Forum Marmara	Marmara		Turkey	1,220,000	26
Forum Trabzon	Trabzon		Turkey	528,000	26
Bexleyheath Shopping Centre	Bexleyheath		UK	600,000	93
Borehamwood Retail Shopping Park	Borehamwood		UK	550,000	93
Whitefriars Quarter Shopping Centre	Canterbury		UK	210,000	50
Silverburn Shopping Centre	Glasgow	Scotland	UK	1,000,000	50
Westfield Stratford City	London		UK	1,900,000	25
Eagles Meadow Shopping Centre	Wrexham		UK	400,000	93
INDUSTRIAL PROPERTIES					
Banfield Distribution Centre	Victoria		Australia	828,000	80
Goodman Trust Australia - Industrial Portfolio	Various	Various	Australia/Europe	23,577,000	42
Fengxian International Logistic Park	Shanghai		China	1,440,000	80
Kangqiao Distribution Centre	Shanghai		China	588,000	80
Fengxian Distribution Centre	Shanghai		China	520,000	80
Taopu Industrial Estate	Shanghai		China	488,000	80
Goodman Lujia Logistics Centre	Shanghai		China	410,000	80
Interlink Industrial	Tsing Yi	Hong Kong	China	2,400,000	50
TOTAL INTERNATIONAL				**50,213,400**	
PORTFOLIO TOTAL				**108,240,400**	

* Gross Leasing Area

Note: Properties contained in this list are a sample of our direct core property holdings and excludes properties held through real estate funds.

PARTNERING WITH EXTERNAL MANAGERS

PRIVATE INVESTMENTS

PRIVATE EQUITY
Actera Group
Advent International
AlpInvest Partners
Apax Partners
Apollo Management
Ares Management
Baring Private Equity Asia
Birch Hill Equity Partners
BC Partners
Bridgepoint Capital
Brookfield Asset Management
CCMP
CDH Investments
Charterhouse Capital Partners
Chequers Capital
Cinven
CITIC Capital Partners
CIVC Capital Partners
Clairvest Group
Coller Capital
Credit Suisse First Boston
CVC Capital Partners
Court Square Capital Partners
Diamond Castle
Edgestone Capital Partners
Encap Investments
First Reserve
FountainVest
Friedman Fleischer & Lowe Capital Partners
Goldman Sachs
Heartland Industrial Partners
Hellman & Friedman
HitecVision
Hony Capital
Kensington Capital Partners
Kohlberg Kravis Roberts & Co.
KRG Capital Management
KSL Capital Partners
Lexington Partners
Lion Capital
Lindsay, Goldberg & Bessemer
Lone Star Funds
Magnum Industrial Partners
Matlin Patterson
MBK Partners
MidOcean Partners
MPM Capital
Multiples Alternate Asset Management
New Mountain Capital
Northleaf
Onex Partners
PAI Partners
Partners Group
Paul Capital Partners
Performance Equity Management
Permira
Providence Equity Partners
Quantum Energy Partners
Riverstone/Carlyle
Schroders Ventures
Silver Lake Partners
Standard Life
Stone Point Capital
Tenaya Capital
Terra Firma Capital Partners
Texas Pacific Group
The Blackstone Group
The Carlyle Group
The Jordan Company
The Sterling Group
Thomas H. Lee Partners
Thomas Weisel Partners
Triton
Victoria Capital
Welsh, Carson, Anderson & Stowe

INFRASTRUCTURE
Macquarie Bank Limited

PRIVATE DEBT
Farallon Capital Management

PUBLIC MARKET INVESTMENTS

AQR Capital Management LLC
Arrowstreet Capital
BlackRock, Inc.
Brevan Howard Asset Management LLP
Bridgewater Associates Inc.
Capital Fund Management
Cevian Capital Limited
Connor Clark & Lunn Investment Management Ltd.
Credit Suisse Asset Management LLC
Elliott International Capital Advisors Inc.
ESL Partners LP
Pacific Investment Management Company
Pershing Square Capital Management LP
Relational Investors LLC
Treesdale Partners LLC
Two Sigma Investments LLC
ValueAct Capital
Fortress Investment Group
BlueGold Capital Management LLP
Louis Dreyfus Investment Group
Wolverine Asset Management LLC
COMAC Capital LLP
Ionic Capital Partners LP
BlueMountain Capital Management LLC
BlueCrest Capital Management LLP
OxFORD Asset Management
Yannix Management LP
Dymon Asia Capital Ltd.
Nephila Capital Ltd.
Anchorage Capital Group LLC
Janchor Partners Management Limited
Penta Investment Advisors Limited
Hillhouse Capital Management Ltd.

REAL ESTATE INVESTMENTS

Aliansce Shopping Centers
Ancar Ivanhoe Shopping Centers
Archstone Multifamily Partners
AvalonBay Communities, Inc.
Bentall Kennedy LP
Brookfield Properties Corporation
Callahan Capital Partners
CapitaLand Group
Carr Properties
Casden Properties
CBRE Global Investors (UK Funds) Limited
Clarion Partners
Colonial First State Global Asset Management
Cornerstone Real Estate Advisors
Cyrela Commercial Properties
DEXUS Wholesale Property Limited
Donahue Schriber Realty Group
Douglas Emmett, Inc.
Essex Property Trust
General Growth Properties
GLP Japan Development Partners
Goodman Group
Grosvenor Investment Management
Hammerson
Hawkeye Partners
Henderson Global Investors
John Buck Company
Kimco Realty Corporation
Land Securities
LaSalle Investment Management
Liquid Realty Partners
Macquarie Global Property Advisors
Meadow Partners
Morgan Stanley Real Estate
Multi Corporation
Osmington Inc.
Oxford Properties Group
Pramerica Real Estate Investors Ltd
ProLogis
RioCan Real Estate Investment Trust
Simon Property Group
SL Green Realty Corp.
Stadium Group of Companies
The Blackstone Group
The Rockefeller Group
The Westfield Group
TIAA-CREF Asset Management
USAA Real Estate Company
Vornado Realty Trust

OPERATIONAL HIGHLIGHTS

INTERNAL CAPABILITIES

Our success continues to rest on our ability to build the internal capabilities needed to operate a global investment organization. We are committed to our unique mandate and ensuring we foster a collaborative culture where employees can succeed and contribute to our business priorities. By building strong leadership and attracting and developing high-performing professionals, we continue to capitalize on our internal expertise to successfully implement our global investment program.

As a global investment organization, we further extended our reach into new and emerging markets this year:

> In April 2011, we established a separate Real Estate Investments group in Asia. This group is headed up by a newly-appointed Managing Director, Real Estate Investments based in Hong Kong. Real Estate Investments now has three regional teams: the Americas, Asia and Europe.
> In February 2012, Mark Machin was appointed President, CPPIB Asia Inc. to lead the development of CPPIB's investment strategy in the Asia Pacific region. He will be based in our Hong Kong office. This senior presence will help build CPPIB's profile in this growing region by implementing our investment strategy and building relationships with governments and institutional investors.
> In February 2012, Vikram Gandhi and his firm VSG Capital Advisors (VSG) were retained as Senior Advisors to provide strategic advice and develop and facilitate long-term investment opportunities for the organization in the Indian sub-continent.
> Public Market Investments established an External Portfolio Management team in Hong Kong to capitalize on local market opportunities.
> To further support our global mandate and ensure integration across our investment groups, we created a coordination group for all our activities across Latin America. These dedicated resources will help focus our investment activity in Latin America and develop a comprehensive investment and resourcing plan to support future business opportunities.

We also continued to build and broaden our capabilities across the organization:

> Within Public Market Investments, we appointed Eric Wetlaufer as Senior Vice-President and named two new Vice-Presidents: Head of Global Capital Markets and Head of Global Corporate Securities.
> The Private Investments group created the position of Vice-President, Asset Management to develop and implement a strategy to ensure diligent governance and oversight of our growing private equity investments.
> A new Vice-President and Head of Portfolio Management was appointed to build a team and support our Total Portfolio Approach. This team will view these activities with a more holistic perspective.
> Our London office moved to new premises in November 2011 to accommodate our growing team of investment professionals.

We are ensuring that all business areas are poised to support an agile, scalable and integrated global organization:

> In Treasury, Risk, Operations and Technology (TROT), a new role of Vice-President, Integration Management, was created and filled through an internal promotion. An Integration Management team was also established with a mandate to develop and help to implement a common view of CPPIB's core investment and operational processes across the organization. This is a key focus across our Core Services areas, where we are placing much greater emphasis on process and system integration.
> The Finance group continues to deepen its risk management expertise. A new position of Vice-President, Business Planning and Enterprise Risk Management was created to develop a more holistic view of the five key risk areas cited on page 35 and to enhance integration with our strategic and business planning activities. Internal Audit operates as an independent function that reports to the Audit Committee of the Board of Directors. In fiscal 2012, a Vice-President and Head of Internal Audit was appointed to lead our newly in-sourced function and other internal audit capabilities were also added. As we enter into new jurisdictions, our Finance team has also expanded its tax expertise to advise and guide our global activities.
> A new Senior Vice-President of Public Affairs & Communications, Michel Leduc, was appointed in July 2011 and is now leading our internal and external communications programs and public affairs activities.

Fiscal 2012 saw significant investment in leadership development initiatives which is a key priority for CPPIB. Customized programs were launched to meet the needs of new and experienced managers, emerging leaders and high-potential talent. Our intent is to provide employees with skills to advance their career opportunities and to ensure that we have internal successors for critical roles.

With a growing talent base, we are increasing opportunities for internal transfers and promotions. In fiscal 2012, 116 positions were filled through internal promotions and 37 employees were transferred to other business areas within the organization.

We have also expanded our campus recruitment efforts, resulting in a stronger and more active presence on university campuses to help build a talent pipeline for the future.

By the end of fiscal 2012, we had 811 full-time and contract employees, an increase of 24% over fiscal 2011. Of these, we had 750 employees who were located in Toronto, 38 in London and 23 in Hong Kong.

Going forward, our recruitment, retention and development efforts will take on a more global perspective to expand our presence and experience base in London, Hong Kong and other key geographic markets.

We are very aware that our success is contingent upon the commitment of each employee to the unique mandate that Canadians have entrusted to us. As we attract new employees with even more diversity in experience, skills and cultures, we will continue to firmly embed our Guiding Principles and Code of Conduct in everything we do. We work deliberately and consistently to manage how partners and stakeholders experience CPPIB as an organization noted for high performance and operational excellence.

INSTITUTIONALIZING CAPABILITIES

The overarching objective of institutionalizing capabilities is to achieve operational excellence that can support the continued growth of CPPIB's global investment programs in a very efficient manner.

In fiscal 2012, we continued to improve the scalability and agility of our operations and technology capabilities. We are focused on establishing talent, processes and systems that can be enhanced as required over the long term to effectively support the increasing size and breadth of CPPIB's passive portfolio management and active investment programs.

This year, we continued to expand the internal operational capabilities that were first established in 2010 with a focus on efficient end-to-end handling of private and public markets transactions, enhanced reporting and analysis of investments, effective internal business controls and with external investment partners, and CPPIB's data and technology platforms.

We implemented a simplified operational framework for creating and managing investment benchmarks, to provide a more consistent and scalable approach to measuring investment risks and returns. We also standardized performance measurement processes to measure value-added for all investments on the basis of dollar value-added, as discussed on page 42. This allows for a more complete measure of the contributions to value-added across CPPIB's active investment programs.

We improved the measurement and analysis of profit and loss across Public Market Investments' active investment programs to provide more timely and granular investment insights and allow more frequent rebalancing of active investment programs. We also increased automation for processing transactions in exchange-traded securities and dividend entitlement notifications.

We have also developed internal valuation capabilities for CPPIB's real estate investment programs and improved the automation and timeliness of reporting for private investment transactions to provide additional analytics for funds and secondaries transactions.

The Data Management program made significant progress this year with the implementation of standardized solutions for security master records, corporate actions and index data. Integration with core operational processes was completed in 2012, and will be extended in 2013 to integrate with investment decision-making, trading and risk functions.

Looking ahead, our efforts to reduce manual processing and improve the integration of end-to-end investment and operational activities will continue into fiscal 2013 and 2014 when we anticipate achieving a "steady-state" status across our operations and technology platforms. The focus thereafter will shift to optimization and improved integration across CPPIB's business units.

OPERATING COSTS

There are three categories of costs in managing the CPP Fund:

> External management fees;
> Transaction costs; and
> Operating expenses.

External Management Fees: We partner with external asset managers in areas that complement our internal programs. Whenever possible, fee arrangements are structured to be largely performance-based. This aligns the managers' interests with ours and the fees paid are proportional to the benefits derived for the Fund. External management fees totalled $650 million in fiscal 2012 compared to $500 million in fiscal 2011. We follow the customary practice of reporting investment returns net of these fees paid.

Transaction Costs: There are often one-time transaction costs associated with the acquisition of private market assets, especially infrastructure, real estate and private equity. These costs can include investment banking advisory fees in public company bid situations, due diligence consulting fees, taxes incurred on the transfer of real estate, and a variety of other non-recurring expenses. Transaction costs will vary from year to year according to the number, size and complexity of our private market investing activities. In public markets, we pay commissions when trading securities. Commission costs will vary depending on the volumes and markets in which we trade. For fiscal 2012, total transaction costs were $228 million compared to $173 million in the prior year as investment activity increased substantially. These costs are also netted against reported investment returns.

Operating Expenses: This category covers all other costs incurred to manage the Fund. Operating expenses were $440 million this year compared to $328 million in fiscal 2011. Expressed another way, total operating expenses were 28.6 basis points or 28.6 cents for every $100 of invested assets this year compared to 24.0 cents for the prior year.

The year-over-year increase in operating costs largely reflects our continuing organizational growth as we build internal capabilities to execute our investment programs. Our investment programs and activities are fully described on page 43. The increase in operating expenses is largely driven by personnel-related costs of both existing and new staff added as well as investments in supporting technologies, operational capabilities and premises.

We believe that building internal investment capabilities in areas where CPPIB has comparative advantages makes compelling sense from a cost perspective. Infrastructure investing is a case in point where we have developed deep internal capabilities. We conservatively estimate that external management costs for a $10 billion portfolio would cost between $200 million to $250 million per year. By contrast, our fully costed internal program – including all expense allocations and incentive compensation – amounts to approximately $37 million or 39 basis points for every $100 of invested assets.

Since launching our active investment strategy in 2006, we have been building expert teams to implement and manage the required programs, systems and analytics. As such, CPPIB continues to be in a growth stage, especially as we diversify risk globally. As a result, the increase in expenses is necessary to support a scalable and sustainable organization that is intended to manage the expected growth of the Fund. We have reporting, monitoring and control mechanisms to manage expenses at the CPP Fund to ensure that our growth is pursued in a responsible and cost-effective manner and is consistent with the approved annual operating budget. Our governance framework includes expense management policies and authorities, and we have in place expense control reporting to executive management and to the Board to support compliance oversight as well as having regular reviews conducted by the Internal Audit group.

Operating expenses are detailed more fully in note 9a and note 9b to the Financial Statements.

LOOKING AHEAD

ECONOMIC & FINANCIAL MARKET OUTLOOK

The economic recovery from the Great Recession of 2008–09 lost some traction in the 2012 fiscal year. The ongoing debt crisis in Greece, Ireland, Portugal and Spain has engulfed Italy, and interest rate spreads vis-à-vis German bunds in the most heavily-indebted peripheral European countries have risen to unsustainable levels. The peripheral economies contracted over the course of the fiscal year and the implementation of severe fiscal austerity programs has further exacerbated near-term economic weakness. Excess capacity is now at extreme levels in some countries. The unemployment rate in Spain, for example, has soared from 8.0% in 2007 to above 20% at present. Both Ireland and Greece have recorded increases in the unemployment rate in excess of 10 percentage points since mid-2007. Economic performance in the core European countries of Germany and France has also weakened, but on balance, growth remained positive.

In the U.S., the adverse impact on consumer and business confidence of developments in Europe, together with the withdrawal of fiscal stimulus from previous years, caused growth to slow to a crawl early in the fiscal year. Economic conditions, however, improved recently. Business, benefiting from extremely strong financial positions, increased spending on capital equipment and employment. The housing market has stabilized and consumer spending on big-ticket items like autos has strengthened. The U.S. economy is now growing slightly above potential and unemployment has inched down, although it remains stubbornly high. The situation is similar in other developed economies. Canada experienced growth near or slightly below potential owing to the weakness in export markets and the negative hit to confidence associated with the European debt crisis. The U.K. economy has underperformed the U.S. and Canada due to the ongoing contraction of its financial sector, fiscal policy tightening and a more significant exposure of its export sector to the Euro zone economy.

The relatively weak economic performance over the past several years has left most developed markets with substantial excess capacity. Consequently, inflation pressures remain subdued and short-term policy interest rates are at historic lows. Indeed, the Federal Reserve Board has indicated that interest rates are likely to remain at current levels through 2014. Low policy rates, tame cost pressures and the flight to safety associated with the European debt crisis have also pushed government bond yields to historic lows in the U.S., Canada, the U.K. and Germany. The performance of developed market equities was mixed over the fiscal year with markets rallying at year end after struggling earlier in the year in response to concerns over the European debt crisis and the strength of the economic expansion.

In emerging markets, growth has slowed in response to a weakening in developed export markets and to prior policy tightening enacted to reduce inflation pressures. The slowdown has been particularly marked in Latin America, although growth remains positive and policy has eased to bolster economic conditions going forward. China and India remain the growth leaders. Despite the softening in growth, demand for basic commodities from emerging markets has remained fairly strong and has kept commodity prices relatively buoyant. This, in turn, has provided continued strong support for the Canadian dollar.

Going forward, the underpinnings are in place for sustainable non-inflationary growth in the U.S. Corporate balance sheets are in excellent condition and businesses are well poised to expand payrolls and maintain a robust expansion in capital spending. Housing has stabilized and should add to, rather than detract from growth. The pent-up demand for autos is sizeable and should ensure continued gains in this important category of consumer spending. While the need to reign in large budget deficits will weigh on growth, monetary policy will continue to be supportive with short-term interest rates remaining near zero for the next couple of years. Economic growth is expected to be slightly above potential over the medium term, resulting in only gradual reductions in the current high rate of unemployment. In such an environment, inflation will remain low and Treasury yields will rise slowly and modestly from current very low levels. In Canada, growth prospects will be supported by the U.S. expansion and continued accommodative Bank of Canada monetary policy. Some easing in the current high value of the Canadian dollar over the medium term should also aid the nation's export performance.

The Euro zone will struggle over the next year as it attempts to deal with the sovereign debt crisis. A mild recession appears probable. Over the medium term, a return to above-potential growth is likely but unemployment, particularly in the heavily-indebted countries, will remain punishingly high.

Emerging markets will continue to perform well with the Chinese economy leading the way. Ongoing strong productivity gains and relatively sound fiscal and external payment positions provide the backdrop to continued healthy economic growth over the medium term. Unlike developed markets, most emerging market economies have little or no excess capacity. Therefore, growth near potential will be necessary to keep inflation pressures at bay.

In this environment, equity markets should continue to make decent, if uneven gains over the medium term and outpace returns provided by fixed income assets. Steady above-potential economic growth, coupled with continued restraint on wage demands due to slack in labour markets, should provide a strong foundation for sustained earnings growth. Government fixed income yields will gradually rise as economic growth continues and, at some point, monetary authorities raise short-term interest rates.

As was the case one year ago, the major risk to the economic and financial outlook remains the sovereign debt crisis in Europe. Failure to deal decisively with the crisis could throw the region into a deep recession, damaging the European banking system. Given the interconnected nature of the global financial system, such a development would also have adverse consequences for banks globally and world economic growth.

FISCAL 2013 CORPORATE OBJECTIVES

The principal corporate objectives for fiscal 2013 build upon those pursued in fiscal 2012 and are:

> Executing our investment programs;
> Operating as a global investment organization;
> Enhancing scalability and managing complexity;
> Building capabilities to support the brand promise; and
> Development and continuity of leadership and talent.

ORGANIZATIONAL ACCOUNTABILITY

CEO/CFO CERTIFICATION

During the year, we completed an evaluation of our internal control over financial reporting and disclosure controls and procedures using the framework and criteria set out in the Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

CPPIB is not required by law or regulation to perform this annual evaluation. We do so voluntarily as part of our commitment to strong corporate governance and accountability.

CEO/CFO certification makes it clear that the CEO and CFO are responsible for establishing and maintaining internal control over financial reporting to provide reasonable assurance that it is reliable and conforms with Canadian generally accepted accounting principles. They are also responsible for the design of disclosure controls and procedures that provide reasonable assurance that all material information is gathered and reported to management on a timely basis.

No changes were made in our internal control over financial reporting during the year that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Based on the results of management's evaluation, the CEO and CFO have concluded that internal control over financial reporting and the disclosure controls and procedures are properly designed and operated effectively throughout the year.

ACCOUNTING POLICIES AND CRITICAL ESTIMATES

Financial statements are prepared in accordance with Canadian generally accepted accounting principles (GAAP). This requires management to adopt accounting policies and make certain assumptions and estimates that affect the reported amounts of assets, liabilities, income and expenses. The significant accounting policies adopted by us are described in note 1 to the Financial Statements.

Management's most critical accounting estimates are with regard to the determination of fair value for investments. Fair value is an estimate of the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

Quoted market prices are used to represent the fair value for investments traded in an active market, such as publicly-listed stocks.

In cases where quoted market prices are not available, such as for our private equity, infrastructure, private real estate, private debt and over-the-counter derivatives holdings, fair value is determined by valuation techniques that make maximum use of inputs observed from markets. These valuation techniques include using recent market transactions, discounted cash flow analysis, pricing models and other accepted industry valuation methods. Management engages independent third party appraisers to assist in the review or preparation of investment valuations. The non-marketable government bonds within the CPP Fund are valued by discounting cash flows based upon current market yields of instruments with similar characteristics and then adjusting for their non-marketability and rollover provisions. Regardless of the technique used, judgment is required to determine the estimated fair value of these non-listed investments.

FUTURE ACCOUNTING POLICY CHANGE

INTERNATIONAL FINANCIAL REPORTING STANDARDS

In February 2008, the Canadian Accounting Standards Board (AcSB) confirmed that Canadian GAAP for publicly accountable enterprises will be replaced with International Financial Reporting Standards (IFRS) effective for our interim and annual periods, starting April 1, 2011. Subsequently, the AcSB granted Canadian investment companies with an optional three-year deferral from the requirement to adopt IFRS.

The three-year deferral provides the International Accounting Standards Board (IASB) time to complete its consolidation project. Under this project, the IASB issued an exposure draft in August 2011 entitled "Investment Entities" which would allow investment entities in Canada the ability to continue to measure all investments at fair value including those in controlled entities. The impact of this exposure draft on CPPIB will not be determinable until it has been finalized and approved by the IASB.

We have identified the major differences between our application of existing Canadian GAAP and current IFRS. We have also developed a conversion plan and are on schedule with its execution. However, as IFRS continues to change, we cannot definitively comment at this time on the impact these differences could have on our operations, financial position and results of operations.

We continue to monitor developments and changes to IFRS.

ACCOUNTABILITY AND DISCLOSURE

ACCOUNTABILITY

CPPIB is accountable to the stewards of the Canada Pension Plan. The stewards are the federal finance minister and the finance ministers of the participating provinces. We report to Parliament through the federal finance minister, who tables our Annual Report in the House of Commons. Quarterly financial statements are filed with the federal and provincial finance ministers and made public. Further, our Chair and CEO take questions and comments from individual Canadians and stakeholder groups at biennial public meetings in the provinces that participate in the CPP. The next public meetings will be held in June 2012.

An external accounting firm audits our financial statements every year. We provide information to the Office of the Chief Actuary of Canada to facilitate its triennial evaluation of the CPP. We also provide requested information to the federal and provincial finance ministers for their periodic reviews of the CPP. Every six years, we undergo an external Special Examination of our records, systems and practices, as required for all Crown corporations. Additionally, the federal minister of finance can require a special audit at any time. A Special Examination was completed in 2010 with a favourable opinion.

All public reports issued by CPPIB are subject to review and approval by the Audit Committee of our Board of Directors, which then recommends their approval to the full Board. This includes the financial statements and Annual Report.

CPPIB exceeds both legislated requirements and industry norms in maintaining high standards of conduct and business practice. This is part of our commitment to ethical conduct. Our comprehensive governance and accountability framework includes measures designed to preserve the public trust. One is the Code of Conduct for directors and employees. Among other things, this code – which can be found on our website – obligates everyone to act as whistle-blowers if they become aware of any suspected breach. This reporting can be done confidentially to an external conduct review advisor who is not part of management or the Board of Directors. The Honourable Frank Iacobucci was appointed to this position in fiscal 2006. He is a former justice of the Supreme Court of Canada, former member of the Ontario Securities Commission and author of five major books on business law. Mr. Iacobucci submits a report and meets in person with the Board at least once a year to discuss his activities.

We have also adopted internal standards and policies to ensure we act responsibly as a capital markets participant.

DISCLOSURE

"Canadians have the right to know why, how and where we invest their Canada Pension Plan money, who makes the investment decisions, what assets are owned on their behalf and how the investments are performing."

We operate on the belief that transparency is the foundation of trust with contributors, beneficiaries, partners and other stakeholders. CPPIB discloses more information, more often, than any other pension fund in Canada. This includes the quarterly release of investment results and this Annual Report which contains extensive disclosure on the Fund's performance.

Our website contains comprehensive information about how we operate. This information includes details of investment holdings as well as our investment partners. Our website also offers access to CPPIB's governing legislation and regulations, our by-laws, governance manual and policies. The policies include the investment statement that guides us in managing the CPP Fund and the Cash for Benefits portfolio. The website maintains an archive dating back to fiscal 1999, when we began investing, and contains a page that solicits feedback and questions.

REPORT OF THE HUMAN RESOURCES AND COMPENSATION COMMITTEE

The Human Resources and Compensation Committee (HRCC) assists the Board of Directors with human resources matters, including talent management and compensation. The committee's mandate is detailed in the Terms of Reference posted on the CPPIB website.

The HRCC is composed entirely of independent directors who are knowledgeable about issues related to human resources and executive compensation. All HRCC members also serve on the Investment Committee and have a strong appreciation of the link between compensation and risk management.

The committee members for fiscal 2012 were:

Pierre Choquette, Chair

Douglas W. Mahaffy

Heather Munroe-Blum

Ronald E. Smith

D. Murray Wallace

Although the Terms of Reference state that up to one-third of the members may be sitting CEOs, none are currently CEOs of public companies.

In designing the compensation framework for the CPP Investment Board, the HRCC takes into account the relevant marketplace in which CPPIB operates, its mission and the strategy it has chosen to execute.

CPPIB operates broadly within the financial services sector and more specifically within the global investment management component. Most of CPPIB's employees are based in Toronto, so the HRCC primarily looks to comparable Canadian organizations and Canadian financial services companies for peer group comparators. In addition, since CPPIB also has offices in both London and Hong Kong, the compensation framework has to afford the organization the ability to offer competitive compensation levels within those markets as well. As an investor with global reach, CPPIB is increasingly looking to hire experienced professionals to relocate to our Toronto office; accordingly, the HRCC keeps abreast of compensation practices and trends in key markets, such as the United States. The committee does not believe that CPPIB needs to be positioned as the maximum compensation opportunity for talented investment and other professionals. Rather, the goal is to target a competitive level of compensation that, in combination with CPPIB's other attributes, makes the organization an attractive employment option.

The HRCC has designed CPPIB's compensation framework to have strong linkages to the organization's mission and strategy.

With respect to its mission, the committee is mindful that there is an element of public trust involved in managing the retirement assets of 18 million Canadians. CPPIB is also a relatively young organization, but one that is meant to endure for a very long time. A large element of management's focus in the near term is on attracting talent; growing the organization; establishing scalable investment programs and processes; putting in place enabling technology, operations and risk management capabilities and establishing a strong culture with uncompromising standards of integrity. Accordingly, the HRCC wants the compensation framework to take into account this important dimension of management's responsibility and performance. Given the public trust dimension, the committee also needs to assess not just what gets accomplished, but also how it is accomplished. The committee believes that the best way to achieve this is to have a meaningful component of management's compensation tied to annual objectives that emanate from the annual business plan approved by the Board. For this component of the compensation system, the committee retains full discretion to reward performance within a range of zero to two times target levels. This full discretion allows the committee to not just assess and reward results but also the manner in which they were achieved.

CPPIB's strategy, which is based upon its comparative advantages, is described extensively elsewhere in this Annual Report. In essence, the strategy incorporates an active management approach whereby the organization executes a wide range of investment programs designed to earn returns above those available from passively investing in public markets. The investment performance component of the compensation system is designed to measure the extent to which management has succeeded in generating value-added returns and to structure compensation amounts accordingly.

The HRCC makes three key decisions with respect to the performance component of CPPIB's compensation framework:

I) CHOICE OF BENCHMARKS

The HRCC approves the framework for all benchmarks used for compensation, as well as the specific benchmarks for all significant investment programs and the CPP Fund performance. There is an extensive description of compensation benchmarks in the "Benchmarking Under the Risk/Return Accountability Framework" section of the Management's Discussion and Analysis component of this Annual Report. In approving the compensation framework and benchmarks, the HRCC is particularly focused on ensuring that each benchmark is relevant to the activities within the corresponding investment program, and that the benchmarks also take into account the level of risk taken. In the case of infrastructure, for example, the higher the leverage that management uses in acquiring an asset, the greater its risk profile and correspondingly our benchmark return expectations. The committee wants to ensure that the compensation system does not reward management for simply taking more risk.

II) CALIBRATION OF RESULTS

The HRCC has to use judgment in deciding what level of prospective returns represents good, exceptional or disappointing performance. These determinations take into account factors such as the nature and size of the investment program, relevant metrics such as information ratios or return on risk calculations, and where available, external indicators such as the Investment Property Databank (IPD) that we use for real estate.

The committee has adopted the policy that each investment program should first recover its costs before any value-added performance is attributed. This aligns the interests of management and the CPP Fund beneficiaries by ensuring that management is only incented to incur costs if they are convinced that they will be more than offset by incremental returns. The committee assigns a compensation multiplier of one to a target level of value-added returns after costs that, in our judgment, represents a good level of performance. Beyond that target level, the committee approves a distribution of returns that can range from multipliers of five to negative three – that is, plus or minus four around the target of one. The HRCC believes it is prudent to limit the impact of any one investment department or any single year's results so that it cannot have an undue influence on compensation amounts. Consequently, multipliers are capped on the upside at five and have a downside floor of negative three. These caps also allow the HRCC to establish maximum levels of potential compensation within bounds that it considers appropriate.

III) TIME FRAME

The HRCC wants the period over which value-added investment returns are measured to correspond to the long-horizon focus of CPPIB's strategy and the multi-generational nature of the Canada Pension Plan itself. Consequently, investment performance is measured annually and then averaged over rolling four-year periods; this four-year result is then incorporated within the compensation system. Four-year periods are also used by a number of organizations similar to CPPIB. While this is shorter than the actual duration of many of CPPIB's investment programs, the committee thinks this is a reasonable length of time for accountability and compensation purposes. Importantly, no investment performance compensation is based upon any single year's result.

Having made these three decisions, the investment performance component of CPPIB's compensation framework is then based solely upon actual and benchmark returns with no further input from the HRCC required. The committee fully expects there will be positive and negative value-added results in any given year, and this is precisely what has occurred over the last four years. To date, the investment performance component has operated within the parameters anticipated by the committee. That said, the HRCC reviews these key elements of benchmarks, calibration and time frame on a regular basis and will make any changes it considers appropriate.

In keeping with a performance-based compensation framework, the HRCC believes that benefits and perquisites should be modest. Benefits such as medical, dental and insurance are at comparable levels to similar organizations. CPPIB provides a defined contribution pension plan that is the same for all employees; there is no special plan for executive officers. Perquisites are limited to company-paid parking for officers.

The HRCC has engaged Hugessen Consulting Inc. (Hugessen) to provide independent advice, information and guidance. Hugessen cannot provide any services to management without the committee's prior approval. Fees paid to Hugessen for its services to the committee were $337,000 and $198,000 in fiscal 2012 and fiscal 2011, respectively, and no additional services were provided to management. The $139,000 year-over-year increase is largely attributable to the detailed independent review of the benchmarks and value-added targets used for compensation purposes that Hugessen undertook at the request of the HRCC, as referenced below, and support on the CEO transition.

KEY ACTIVITIES FOR FISCAL 2012

The HRCC held four meetings during fiscal 2012. Although not a committee member, the Chair of the Board of Directors attended all meetings. The CEO and the Senior Vice-President, Human Resources, also attended portions of the meetings at the committee's request. A list of the HRCC's activities is included as Table 1 of this report.

In addition to those activities, the committee adopted specific objectives designed to highlight areas of focus in fiscal 2012 and continuing into fiscal 2013. The objectives and progress relative to the objectives follow:

> In conjunction with the Chair and CEO, ensure comprehensive succession plans are in place for the CEO and key senior management roles, and that a sound process is in place for timely decisions and execution of these plans.

The committee supported the Board of Directors in the CEO succession planning process and recommended the compensation elements and employment terms for the incoming CEO. The committee also reviewed management's succession plans with respect to officers and other key roles across the organization and was satisfied with the progress management has made.

> Working with management and the committee's external compensation advisor, undertake a broad review of the framework for all benchmarks and the value-added targets used for incentive compensation purposes.

The committee reviewed and approved the principles used in determining the incentive compensation benchmarks and compensation curves, the transition from measuring value-added performance in basis points to dollars, and benchmarks and incentive compensation curves for investment programs below the CPP Fund level. The committee also reviewed and recommended, for Board of Directors approval, the benchmark and incentive compensation curve for the CPP Fund. More detailed information regarding benchmarks and value-added performance targets is contained on pages 33 to 35.

> Continue the committee's efforts to ensure that the Board is comfortable with CPPIB's approach to executive compensation.

The committee kept the Board apprised of executive compensation matters during fiscal 2012, including the committee's assessment of each officer's performance against objectives established for the year, as well as other qualitative factors and the awards specific to the level of performance achieved.

In conclusion, the HRCC is satisfied that the compensation framework for CPPIB is appropriate, that the investment performance compensation results for fiscal 2012 are consistent with the design and intent of the system, and that our decisions with respect to the individual performance components of compensation reflect our assessment of management's performance relative to pre-established objectives for fiscal 2012.

PIERRE CHOQUETTE
CHAIR, HUMAN RESOURCES AND COMPENSATION COMMITTEE

TABLE 1: ACTIVITIES OF THE HUMAN RESOURCES AND COMPENSATION COMMITTEE

AGENDA ITEMS	May 2011	November 2011	January 2012	February 2012
Review of executive compensation trends as provided by the HRCC's external compensation advisor	•	•		
Review officers' compensation, including requesting and reviewing a report from the HRCC's external compensation advisor on the compensation of officers relative to other large Canadian pension funds and investment management companies	•	•		
Review, approve and recommend for Board approval salary ranges, salary increases and incentive compensation payouts for officers and employees	•			
Oversee the disclosure of directors' and officers' compensation and the compensation framework in the Annual Report	•			
Review and recommend the benchmark and incentive compensation curve for the CPP Fund for Board approval			•	•
Review and approve the principles for determining benchmarks and calibrating incentive compensation curves, as well as the benchmarks and incentive compensation curves for specific investment programs below the CPP Fund level	•	•	•	•
Review and recommend for Board approval changes to incentive compensation plans				•
Review and recommend for Board approval the appointment, compensation and severance arrangements for officers	•		•	•
Recommend for Board approval a non-compete and non-hire agreement for officers		•	•	•
Review and recommend the CEO's performance objectives and performance evaluation process for Board approval	•			•
Review significant outside commitments of the CEO	•			
Review and recommend for Board approval HRCC Terms of Reference and review performance against Terms of Reference		•		•
Review succession planning and talent management programs		•	•	•
Receive the Annual Report of the Pension Committee and review and approve pension plan documents				•
Review non-material changes to employee benefit plans and Human Resources policies				•
Review the performance of the external compensation advisor		•		

COMPENSATION DISCUSSION AND ANALYSIS

The Compensation Discussion and Analysis starts by summarizing the foundational principles of our Management Compensation Framework. We then discuss the elements of our compensation program. Following this, we report on our fiscal 2012 performance results and remuneration of the named executive officers and directors.

PRINCIPLES OF OUR MANAGEMENT COMPENSATION FRAMEWORK

Our Management Compensation Framework rests on three key principles:

> It should enable CPPIB to attract experienced investment and management expertise;
> It should embody a pay-for-performance approach; and
> It should measure performance against objective benchmarks, where possible, and over longer periods of time.

Our compensation program is a key factor in attracting the talent and investment experience we need to manage a global active portfolio of $161.6 billion. In our search for employees, we compete with the largest investment managers, securities dealers and banks, not only in Canada but around the world. As one of the largest funds of its type globally, we require people with significant experience in investment management, investment research, portfolio design, risk management, investment operations and other skills. A competitive compensation package is essential to attract and retain this talent.

We are committed to a pay-for-performance approach that directly links compensation to investment and individual performance. To ensure that compensation reflects our responsibility to the public, we have a clear set of incentives that are consistent with our long-term investment strategy and investment risk limits, measureable against clear benchmarks, understood by management and transparent to stakeholders and employees.

Incentive compensation is based on long-term pay-for-performance principles. Our system primarily rewards success in generating value-added investment performance based on the following criteria:

> Value-added performance is averaged over rolling four-year periods to determine incentive compensation payments. This four-year measurement period for investment performance is consistent with our longer-term investment strategy and represents a reasonable payout period;
> Investment returns are compared against external benchmarks that are considered most relevant to each investment program in order to determine value-added performance. For the overall CPP Fund, this benchmark is the CPP Reference Portfolio, as noted on page 24 (see page 33 for a description of the benchmarks used);
> The long-term component of incentive compensation is also modified by the CPP Fund's cumulative four-year return to ensure that incentive compensation is aligned with the absolute return performance of the CPP Fund in addition to its returns relative to benchmarks;
> Investment returns take into account all of our operating costs and external manager fees;
> Annual value-added performance calculations are subject to maximum caps, positive and negative, to ensure that no single-year result has undue impact and that maximum achievement levels are appropriate;
> The only element of compensation shorter than four years, by design, is a discretionary component tied to the achievement of annual individual objectives; and
> The majority of total pay is incentive-based.

We believe that CPPIB's compensation framework meets and, in some cases, exceeds the Principles for Sound Compensation Practices established by the Financial Stability Board and endorsed by the G20 nations.

GLOBAL POLICIES ON EXECUTIVE COMPENSATION

GUIDELINES	CPPIB FRAMEWORK
Based on long-term performance	Based on investment performance over four-year periods
Discourage short-term risk-taking	Four-year results discourage short-term decisions Total amount of risk is governed by the Board of Directors Where appropriate, benchmarks adjust for the degree of risk taken
Increased oversight powers of board compensation committees	The HRCC and the Board of Directors make all decisions about the compensation framework

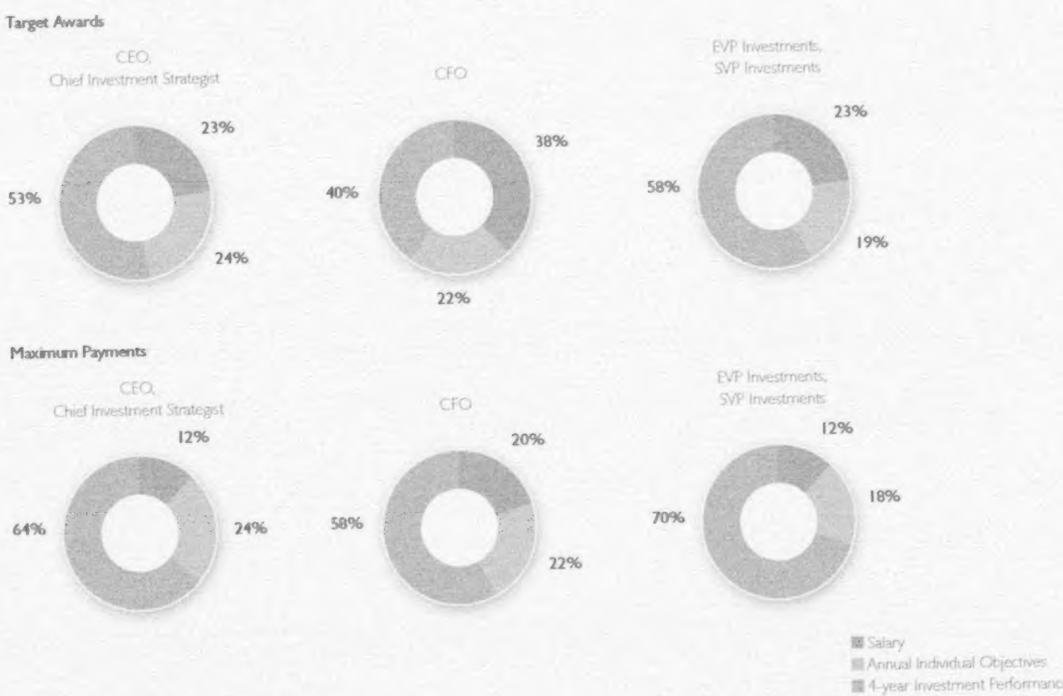
KEY ELEMENTS OF OUR COMPENSATION FRAMEWORK

Our compensation program is driven by four-year investment performance and annual individual objectives. The majority of total pay is incentive-based, consistent with our compensation philosophy.

The mix of compensation elements is specific to each role. Senior investment professionals have a higher percentage of their compensation that is incentive-based and tied to four-year investment performance. Non-investment professionals have a higher percentage of their compensation comprising base salary and tied to annual individual objectives.

These charts show the compensation mix for the named executive officers.

MIX OF TOTAL DIRECT COMPENSATION FOR FISCAL 2012



MARKET POSITIONING

The competitiveness of our compensation framework is assessed relative to a peer group consisting of organizations with investment management professionals and other talent similar to that employed by CPPIB, taking into consideration criteria such as assets under management, functional scope and complexity. These organizations include other major Canadian pension funds, public investment management firms and other financial services firms for relevant positions. The independent compensation surveys that we use include the Mercer Canadian Investment Management Survey of pension funds and public investment management organizations with assets under management in excess of $20 billion, the Towers Watson Investment Management Compensation Survey, the McLagan Investment Management Survey and the McLagan Private Equity Canada Survey.

As part of the fiscal 2012 officers' compensation review undertaken by Hugessen, the HRCC reviewed publicly-disclosed information gathered from the following public pension funds: Ontario Teachers' Pension Plan, OMERS, Caisse de dépôt et placement du Québec, British Columbia Investment Management Corporation, Alberta Investment Management Corporation and Public Sector Pension Investment Board, as well as investment management companies and data from the Mercer, Towers Watson, and McLagan surveys referenced above.

COMPENSATION ELEMENTS

BASE SALARY

Base salaries are paid to employees for fulfilling their core job responsibilities. Salaries reflect skill level, ability and performance. We use annual compensation surveys from consulting firms such as Mercer, Towers Watson, and McLagan to ensure we remain competitive with peer organizations. Salaries are reviewed annually at the end of each fiscal year; any increase in officers' salaries requires Board approval.

SHORT-TERM INCENTIVE PLAN (STIP)

All employees participate in the STIP, which has two components. One part is tied to achievement against annual individual objectives. The other is based on value-added investment performance over a four-year period. Target awards under both are set as percentage of salary, to which a multiplier is applied.

Annual Individual Objective Target ($) x Individual Performance Multiplier (0 to 2) + Four-year Investment Component Target ($) x Four-year Investment Performance Multiplier (0 to 2) = STIP Payout ($)

> **Annual individual performance:** This is measured by the employee's overall performance, including achievement of personal objectives set at the start of the fiscal year. The individual performance multiplier ranges from zero to two.

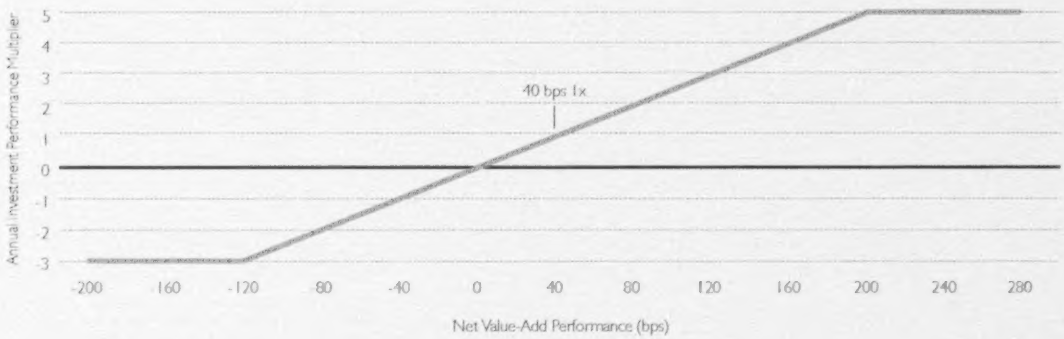
> **Four-year investment performance:** This factor reflects the value-added performance of the CPP Fund over the four-year period ending in the fiscal year. For investment professionals, it also reflects department and asset class performance relative to specified benchmarks. Table 1, on page 78, shows the weighting of the CPP Fund and department performance under STIP for named executive officers (NEOs). Inclusion of CPP Fund performance for all employees is designed to encourage and reinforce the partnering necessary for the success of our Total Portfolio Approach.

CPP Fund, investment department and asset class performance are measured net of operating expenses and external manager fees. The net CPP Fund return is compared to that of the CPP Reference Portfolio. The return we generate relative to this benchmark is our value-added performance. Similarly, net investment department and asset class returns are compared to appropriate market-based benchmarks approved by the HRCC. The compensation benchmarks are described on pages 33 and 34 of Management's Discussion and Analysis.

The annual investment performance multiplier is determined by plotting actual value-added performance on the respective compensation curve. For example, as shown in the following graph, if the net CPP Fund return exceeds the CPP Reference Portfolio return by 40 basis points in any given year, the CPP Fund investment performance multiplier is one.

The maximum positive and negative annual multipliers are symmetrical around a target of one, with a maximum positive multiplier in any year being five (one plus four) and the maximum negative multiplier being minus three (one minus four). These annual multipliers are then averaged over each four-year period, with the maximum four-year STIP investment performance multiplier capped at two and the minimum value at zero.

CPP FUND COMPENSATION CURVE



DEFERRED SHORT-TERM INCENTIVE PLAN (DSTIP)

We offer employees the option to defer some, or all, of their STIP payout for up to two years. Any deferred amounts are notionally invested, either entirely in the CPP Fund, or in the CPP Fund and up to a maximum of 50% in the CPP Fund's Private Investments portfolio, as determined by the employee. The deferred amounts thus increase or decrease in value over the two-year deferral period, which provides another way to align employee interests with Fund performance.

LONG-TERM INCENTIVE PLAN (LTIP)

The Long-Term Incentive Plan supports our overall goal of contributing to the long-term strength of the Canada Pension Plan. The intent is to encourage and reward value-added investment performance over the next four years at the CPP Fund level and, in the case of investment professionals, at department and asset class levels too. These awards also have a retention element, as they vest and pay out at the end of the four-year performance period. So, a grant made on April 1, 2012, will vest on March 31, 2016, and be paid out shortly thereafter.

The majority of our investment professionals and senior-level core services professionals receive LTIP awards. The CEO may also approve an LTIP award with three-year vesting to attract new hires and facilitate their transition into the regular LTIP program.

Target LTIP awards are set as a percentage of salary to which a multiplier is applied at the end of the four-year vesting period. The award value is also increased or decreased in accordance with the CPP Fund's compounded rate of return for the period.

Target LTIP Award ($) × Four year Investment Performance Multiplier (0 to 3) + CPP Fund Four year Compounded Rate of Return = LTIP Payout ($)

> **Four-year investment performance:** This multiplier is determined in the same way as the STIP four-year investment performance multiplier described previously, with the exception that the maximum possible multiplier is three. Table 1 shows the weighting of the CPP Fund and department performance under the LTIP for NEOs.

> **CPP Fund four-year compounded rate of return:** This amount increases or decreases the LTIP award by the CPP Fund's four-year compounded rate of return.

TABLE 1: INVESTMENT PERFORMANCE WEIGHTING UNDER STIP AND LTIP

POSITION	CPP Fund	Department
CEO, CFO, EVP Investments, SVP & Chief Investment Strategist	100%	N/A
SVP Investments	50%	50%

RESTRICTED FUND UNITS (RFUs)

The Restricted Fund Unit plan was introduced in fiscal 2008 as a component of compensation for senior investment professionals. RFUs are a notional investment whose value fluctuates in accordance with CPP Fund performance over a three-year period. One-third of the award vests and is paid each year over this period. The RFUs served to moderate the volatility of overall pay while maintaining a direct link to CPP Fund performance.

During fiscal 2010, the HRCC and Board decided to eliminate RFUs and adjust the two performance components of the Short-Term Incentive Plan to strengthen the link between long-term, value-added investment performance and incentive compensation. Consequently, RFU awards are no longer granted. In the case of officers, all unvested regular RFU awards were rescinded in fiscal 2010 and replaced with higher individual and four-year investment components of STIP. The impact of these changes was essentially neutral at target levels of compensation, but they had the effect of making overall compensation more dependent on individual performance and value-added investment results.

Unvested RFUs granted to other senior investment professionals prior to fiscal 2010 continued to vest and the final payment was made at the end of fiscal 2012. Their STIP target award increased as their RFUs were phased out.

The only exception to this phase-out is that RFUs with two-year vesting will continue to be awarded, with the CEO's approval, for certain new hires in order to address transitioning issues.

CLAWBACK AND FORFEITURE PROVISION

The Board of Directors has the authority to interpret, amend and terminate the compensation plans at its discretion. In addition, the Board has adopted a clawback and forfeiture policy that specifically addresses the following situations:

> If financial results are restated, the Board of Directors has discretion to require repayment of incentive compensation deemed to be in excess or forfeiture of unvested incentive compensation awards. This provision applies to all employees at the vice-president level and above;

> Incentive compensation awards may also be reduced and/or forfeited if the payouts determined in accordance with the plan formulas lead to unintended awards; and

> In the event of employee misconduct, incentive compensation awards may be required to be repaid or reduced, and/or unvested incentive compensation awards may be forfeited.

PENSION

All employees are eligible to participate in our registered and supplementary defined contribution pension plans. Eligible earnings under both pension plans consist of base salary, plus the STIP payout to a maximum of 50% of base salary.

For the registered pension plan, employees contribute 3% of annual eligible earnings, and CPPIB contributes 6% to the maximum allowed under the *Income Tax Act (Canada)*. For the supplementary pension plan, employees earn contribution credits equal to 9% of eligible earnings over the maximum for the registered pension plan. The supplementary plan is an unfunded plan notionally invested in the same investment choices available under the registered plan.

Pension benefits are modest relative to those provided by other organizations in the large public pension fund and investment management industry.

BENEFITS AND OTHER COMPENSATION

Our benefits programs are comparable to those provided by similar organizations in our industry. They include life insurance, disability benefits, health and dental benefits, time-off policies, a fitness reimbursement and an Employee-Family Assistance Program. Perquisites for officers are limited to paid parking.

RESULTS: PERFORMANCE OUTCOMES AND COMPENSATION DECISIONS

As described earlier, incentive compensation is based on performance against predetermined individual annual objectives and investment performance relative to market-based benchmarks. This section describes the fiscal 2012 performance measures and results upon which named executive officer compensation is based.

ANNUAL NON-FINANCIAL OBJECTIVES

Management establishes non-financial organizational goals in each fiscal year's business plan, which is approved by the Board of Directors. Fiscal 2012 non-financial organizational goals are outlined in Table 2. Annual individual objectives for officers and employees are then aligned with these organizational objectives. Progress against organizational objectives is reviewed with the Board on a quarterly basis throughout the year and at year end. Based on the Board's assessment, management achieved the organizational objectives set for fiscal 2012 and designed to considerably progress these longer-term objectives.

TABLE 2: FISCAL 2012 NON-FINANCIAL ORGANIZATIONAL GOALS

Execute our investment program strategies
Create sustainable and scalable processes to effectively manage the growth of the CPP Fund
Build scale in emerging markets
Focus on the development and continuity of leadership and talent

FOUR-YEAR INVESTMENT PERFORMANCE

Incentive compensation payouts for fiscal 2012 reflect CPP Fund performance over the four fiscal years that began April 1, 2008, and ending March 31, 2012.

Value-added performance over the CPP Reference Portfolio benchmark was positive in two of these years (fiscal 2011 and fiscal 2012), essentially flat relative to the benchmark for fiscal 2009 and negative in fiscal 2010, resulting in a cumulative value-added performance of -130 basis points over the four-year period ending March 31, 2012. While incentive compensation is based on CPP Fund performance over a four-year period, we measure investment performance over the longer term. Over the past six years, since the adoption of the CPP Reference Portfolio, the cumulative value-added performance is 430 basis points or $4.8 billion.

TABLE 3: CPP FUND PERFORMANCE, FISCAL 2009 TO 2012 AND CUMULATIVE RESULTS

			Value-added Range (bps)						
	Reference Portfolio Return	CPP Fund Return	Threshold[1]	Target[2]	Maximum[3]	Gross Actual Value-added (bps)[4]	Gross Actual Value-added ($ billions)	Net Actual Value-added ($ billions)	Annual Investment Performance Multiplier
Fiscal 2012	4.6%	6.6%	28.6	40.0	200.0	206.0	3.1	2.7	4.42
Fiscal 2011	9.8%	11.9%	24.0	40.0	200.0	207.0	2.7	2.4	4.56
Fiscal 2010	20.8%	14.9%	19.8	40.0	200.0	-587.0	-6.3	-6.5	-3.00
Fiscal 2009	-18.6%	-18.6%	16.2	40.0	200.0	1.0	0.0	-0.2	-0.38
Cumulative 4-Year	12.9%	11.6%	N/A	N/A	N/A	-130.0	-0.5	-1.7	
Cumulative since inception	21.2%	25.5%	N/A	N/A	N/A	430.0	4.8	3.4	

[1] The threshold represents CPPIB's actual operating expenses; this is the value-added return that the CPP Fund must generate above the CPP Reference Portfolio before a positive annual investment performance multiplier is assigned for incentive compensation purposes in respect of the CPP Fund performance.

[2] Represents the value added return that the CPP Fund must generate above the threshold for a 1.0 annual investment performance multiplier to be assigned.

[3] Represents the value-added return that the CPP Fund must generate above the threshold for a 5.0 annual investment performance multiplier to be assigned.

[4] The actual value-added return before taking into account operating expenses.

Investment performance at the department and asset class level relative to their specific benchmarks is discussed in detail on pages 47 to 59 of the Management's Discussion and Analysis and summarized below.

TABLE 4: INVESTMENT DEPARTMENT PERFORMANCE, FISCAL 2009 TO 2012

	Department		
FISCAL YEAR	Public Market Investments	Private Investments	Real Estate Investments
2012	Did not meet target	Exceeded target	Exceeded target
2011	Exceeded target	Exceeded target	Exceeded target
2010	Exceeded target	Did not meet target	Exceeded target
2009	Did not meet target	Exceeded target	Did not meet target

Investment performance over the past four years resulted in STIP investment performance multipliers of 1.4 for the CEO and from 1.4 to 2.0 for the other NEOs. For the fiscal 2009 LTIP grant, which vests and pays out at the end of fiscal 2012, the LTIP investment performance multiplier for the CEO was 1.4, and 1.4 to 2.5 for the other NEOs. The CPP Fund's four-year compounded rate of return was 11.6%, which is an annualized return of 2.8% over four years.

COMPENSATION OF THE CEO

Mr. Denison's total compensation is based on a combination of individual and CPP Fund performance measures, as described previously. At the start of each fiscal year, the Board and the CEO agree on key performance objectives aligned with CPPIB's non-financial goals. At year end, the HRCC evaluates Mr. Denison's performance against those goals and presents its evaluation to the Board for review and approval. As well, each director completes an annual evaluation of the CEO's performance with respect to his key areas of responsibility, and these evaluations are summarized and also presented to the Board of Directors. These two sources of evaluation are then used to determine the individual objective component of Mr. Denison's STIP payout for the fiscal year and his base salary for the upcoming fiscal year. The balance of his STIP payout, as well as the LTIP payout, are determined by the four-year investment performance of the CPP Fund.

Mr. Denison's personal objectives for fiscal 2012 included:

> Successfully completing the key objectives outlined in the annual business plan approved by the Board;
> Working closely with the Board of Directors through the CEO succession planning process, including the smooth transition of responsibilities to his successor, as well as advancing succession planning for officers and other critical roles;
> Undertaking a strategy review focused on the evolution of CPPIB as a truly global investment organization recognized for the integrity and high performance we demonstrate in representing the interests of 18 million plan participants; and
> Meeting with key stakeholders across the country to ensure that CPPIB is meeting their expectations for performance, communication and information.

All of these key goals were achieved.

In evaluating the CEO's overall performance, the Board also considered that under Mr. Denison's outstanding leadership for the past seven years, CPPIB:

> Realized strong value-added investment performance relative to the CPP Reference Portfolio;
> Successfully executed on its increasingly sophisticated and globally diversified investment program;
> Created and maintained a strong culture based on integrity, high performance and partnership;
> Rapidly expanded its capabilities through the recruitment of highly talented investment and core services professionals, implementation and continuous improvement of required processes and deepened expertise in the systems and technology required to support its active investment strategy; and
> Established and executed a best-in-class succession process.

For these reasons, the Board of Directors awarded an STIP annual individual objective payout of $964,700 for Mr. Denison for fiscal 2012. The STIP investment component payout reflects the performance of the CPP Fund relative to the CPP Reference Portfolio for the four-year period ending March 31, 2012, as described above. The Board has increased Mr. Denison's annualized base salary from $515,000 to $530,000 for fiscal 2013.

In February, the Board of Directors announced that Mr. Wiseman will succeed Mr. Denison as President and CEO after Mr. Denison's retirement in June 2012. Mr. Wiseman's base salary will be $490,000 for fiscal 2013 and his incentive compensation targets as a percentage of salary remain unchanged.

COMPENSATION OF THE OTHER NAMED EXECUTIVE OFFICERS

As for the CEO, STIP and LTIP payouts for the other named executive officers reflect performance relative to their annual individual objectives, the four-year investment performance of the CPP Fund relative to the CPP Reference Portfolio and, for the investment officers, investment performance for their departments relative to their specific benchmarks.

As detailed in the Summary Compensation table that follows, total remuneration for the named executive officers is $12,129,795, up 5% from $11,552,798 for the same named executive officers last year. While this year's solid value-added investment performance had a positive impact on the investment components of compensation, fiscal 2010's negative value-added results will continue to dampen short- and long-term incentive compensation through fiscal 2013.

MANAGEMENT COMPENSATION

SUMMARY COMPENSATION

Table 5 shows remuneration over the past three fiscal years for the CEO, CFO and the three most highly compensated officers.

TABLE 5: SUMMARY COMPENSATION[1]

			Incentive Plan Compensation ($)						
				Four-Year Investment Performance					
NAME AND POSITION	Year	Salary ($)	STIP Annual Individual Objectives[2]	STIP Investment Component[2]	LTIP[3]	RFU[4]	Pension Value ($)[5]	All Other Compensation ($)[6]	Total Compensation ($)
David F. Denison	**2012**	**515,000**	**964,700**	**893,400**	**766,300**	**–**	**61,744**	**9,141**	**3,210,285**
President and CEO	2011	500,000	750,000	966,100	766,100	–	59,937	9,854	3,051,991
	2010	490,000	612,400[7]	1,013,800[7]	801,200	–	59,382	9,785	2,986,567
Nicholas Zelenczuk	**2012**	**315,000**	**194,000[7]**	**106,000[7]**	**375,300**	**–**	**34,812**	**7,612**	**1,032,724**
SVP and CFO[8]	2011	308,250	241,700[7]	114,300[7]	–	308,600	34,065	7,838	1,014,753
	2010	300,000	184,800[7]	119,200[7]	–	275,900	28,390	8,099	916,389
Mark D. Wiseman	**2012**	**400,000**	**409,500[7]**	**1,170,000[7]**	**984,200**	**–**	**46,219**	**8,264**	**3,018,183**
EVP Investments	2011	385,000	654,500[7]	1,078,000[7]	973,100	–	44,094	8,198	3,142,892
	2010	335,000	446,300[7]	980,000[7]	1,021,700	–	38,279	7,739	2,829,018
Donald M. Raymond	**2012**	**355,000**	**467,300[7]**	**878,600[7]**	**793,000**	**–**	**40,185**	**7,612**	**2,541,697**
SVP and Chief	2011	345,000	482,900[7]	736,200[7]	578,800	–	39,012	8,362	2,190,274
Investment Strategist	2010	335,000	341,700[7]	595,600[7]	414,300	–	38,279	8,696	1,733,575
André Bourbonnais	**2012**	**325,000**	**383,900**	**950,600**	**623,700**	**–**	**36,094**	**7,612**	**2,326,906**
SVP Private	2011	310,000	382,100	868,000	553,600	–	34,247	4,941	2,152,888
Investments[9]	2010	295,000	177,000	516,250	498,600	175,200	32,442	4,047	1,698,539

[1] All amounts shown in the Summary Compensation table reflect compensation paid to the NEO in, or in respect of, the current fiscal year only. Amounts shown under the Long-Term Incentive Plan (LTIP) and Restricted Fund Units (RFU), therefore, do not depict grant date values. Incentive compensation is paid in cash in the year following the year in which it is earned; amounts shown above were paid or credited to the NEOs in early fiscal 2013 in respect of fiscal 2012.

[2] STIP Annual Individual Objectives and STIP Investment Component target awards are set as a percentage of salary, to which a multiplier is applied. The multiplier is based on individual performance and actual investment performance (CPP Fund and department) respectively over the previous four fiscal years, and cannot result in a payout more than two times the target award.

[3] LTIP: Long-Term Incentive Plan compensation reflects amounts payable for the current year. Target LTIP awards are set as a percentage of salary at the outset of each year and are typically paid out at the end of a four-year cycle. As with STIP, a multiplier is applied to the target LTIP award based on the investment performance of the CPP Fund and department as compared with specified benchmarks; by the end of the performance period, this multiplier cannot exceed three times the value of the target award. The final LTIP payout is increased (or decreased) based on the Fund's compounded rate of return over the performance period.

[4] RFU: Restricted Fund Units are a notional investment in the Fund that fluctuate in value according to Fund performance; awards are set as a percentage of salary and vest and are paid out in cash in two installments at the end of two fiscal years.

[5] CPPIB makes contributions to the defined contribution pension plan and notional contributions to the supplementary pension plan. Under the registered pension plan, employees contribute 3% of annual eligible earnings and CPPIB contributes 6% to the maximum allowed under the *Income Tax Act (Canada)*. Eligible earnings include salary plus annual STIP to a maximum of 50% of salary. Under the supplementary pension plan, which is unfunded, employees earn credits equal to 9% of their eligible earnings in excess of the maximum eligible earnings under the registered pension plan. The contributions under both plans are outlined in Table 7: Pension Plan Contributions. The total unfunded liability for the NEOs as at March 31, 2012, is $842,597 (2011 – $685,152).

[6] Benefits include life insurance, disability benefits, health and dental benefits, and fitness reimbursement. Perquisites include paid parking.

[7] NEO elected to defer all or part of the STIP payment for two years under the Deferred Short-Term Incentive Plan.

[8] Mr. Zelenczuk joined CPPIB on January 15, 2009. Mr. Zelenczuk's supplemental RFU payments were made in fiscal 2010 and fiscal 2011 as per his employment agreement.

[9] Mr. Bourbonnais became an officer on April 1, 2010 (fiscal 2011). He received a final payout of vested RFUs in fiscal 2010 and all remaining unvested RFUs were rescinded as with other officers.

LONG-TERM INCENTIVE AWARDS AND ESTIMATED FUTURE PAYOUTS

LTIP awards are granted at the start of a fiscal year and paid out at the end of the four-year vesting period. Table 6 shows the LTIP and estimated future payouts for each named executive officer. The future value of the awards granted but not yet vested are estimated as at March 31, 2012, based on:

> Actual performance multipliers for fiscal 2010, 2011 and 2012, and pro-forma multipliers of one for future years; and
> Actual CPP Fund rates of return for fiscal 2010, 2011 and 2012, and no assumed growth in future years.

TABLE 6: LONG-TERM INCENTIVE AWARDS AND ESTIMATED FUTURE PAYOUTS

NAME	Year of Grant	Type of Award	Award Target Value ($)[1]	Maximum Value ($)[2]	Estimated Future Payouts at the End of Fiscal Years ($): 2013	2014	2015	Total
David F. Denison[3]	**2012**	**LTIP**	**515,000**	**1,545,000**	–	–	**254,800**	**254,800**
President and CEO	2011	LTIP	500,000	1,500,000	–	819,000		819,000
	2010	LTIP	490,000	1,470,000	880,000	–	–	880,000
Nicholas Zelenczuk	**2012**	**LTIP**	**252,000**	**756,000**	–	–	**498,700**	**498,700**
SVP and CFO	2011	LTIP	246,600	739,800	–	807,900		807,900
	2010	LTIP	240,000	720,000	574,700	–	–	574,700
Mark D. Wiseman	**2012**	**LTIP**	**400,000**	**1,200,000**	–	–	**791,500**	**791,500**
EVP Investments	2011	LTIP	385,000	1,155,000	–	1,261,300		1,261,300
	2010	LTIP	350,000	1,050,000	838,100	–	–	838,100
Donald M. Raymond	**2012**	**LTIP**	**355,000**	**1,065,000**	–	–	**702,500**	**702,500**
SVP and Chief	2011	LTIP	345,000	1,035,000	–	1,130,200		1,130,200
Investment Strategist	2010	LTIP	335,000	1,005,000	1,111,600	–	–	1,111,600
André Bourbonnais	**2012**	**LTIP**	**325,000**	**975,000**	–	–	**693,000**	**693,000**
SVP Private	2011	LTIP	310,000	930,000	–	1,109,200		1,109,200
Investments	2010	LTIP	265,500	796,500	727,900	–	–	727,900

[1] Represents the target value at the time of grant; no award is payable if performance is below a certain level.

[2] For LTIP, represents the maximum value payable at the end of the four-year vesting period, excluding the CPP Fund's compound rate of return over the four-year vesting period. See the LTIP section for details.

[3] Mr. Denison is retiring as of June 30, 2012; estimated future payouts have been prorated to reflect the time worked during the performance period. See the Termination and Retirement Arrangements section for details.

PENSION PLANS

As described earlier, all employees participate in the regular and supplementary defined contribution pension plans. The table below shows the contributions and investment earnings for the named executive officers under both plans. The total unfunded liability for the named executive officers, as at March 31, 2012, is $842,597 (2011 – $685,152 for the same NEOs).

TABLE 7: PENSION PLAN CONTRIBUTIONS

			Compensatory ($)			
NAME	Plan Type	Accumulated Value at Start of Year ($)	Employer Contributions ($)	Investment Earnings ($)	Non-compensatory ($)[1]	Accumulated Value at End of Year ($)
David F. Denison	Registered	154,745	15,521	–	3,081	173,347
President and CEO	Supplementary	283,302	46,223	872	–	330,397
Nicholas Zelenczuk	Registered	60,517	15,407	–	9,287	85,211
SVP and CFO	Supplementary	32,820	19,405	553	–	52,778
Mark D. Wiseman	Registered	132,704	15,521	–	3,632	151,857
EVP Investments	Supplementary	125,135	30,697	-1,397	–	154,435
Donald M. Raymond	Registered	220,499	15,452	–	1,171	237,122
SVP and Chief Investment Strategist	Supplementary	169,773	24,733	15,302	–	209,808
André Bourbonnais	Registered	123,964	15,521	–	9,739	149,224
SVP Private Investments	Supplementary	74,122	20,573	484	–	95,179

[1] Represents employee contributions and investment earnings in the registered pension plan.

TERMINATION AND RETIREMENT ARRANGEMENTS

In the event of termination without cause, severance pay for the named executive officers is set at 12 months of base salary and the target STIP award, plus an additional month of salary and one-twelfth of the target STIP award for each year of service. Severance pay is capped at 24 months for the CEO and generally 18 months for the other named executive officers. Unvested LTIP awards are forfeited. Insured benefits, such as health, dental and life coverage, are continued during the severance period.

All incentives and benefits are forfeited for termination with cause. There are no change of control provisions in the employment arrangements.

In the event of resignation and in consideration of adherence to a one-year non-compete and non-hire agreement, officers receive a prorated payment of the LTIP grant which would have vested at the end of the fiscal year of resignation, payable one year after resignation. All other incentives and benefits are forfeited.

On retirement, employees are due a prorated STIP payment based on the time worked during the fiscal year. This is paid on the regular annual payment date. Retirees also receive LTIP payouts prorated for the time worked during the performance period; these are paid shortly after the regular vesting dates. All benefits are discontinued as of the effective retirement date.

Table 8 shows the payments that would be made, as of March 31, 2012, to the named executive officers on termination without cause, resignation or retirement.

TABLE 8: POTENTIAL TERMINATION AND RETIREMENT PAYMENTS[1]

NAME	Completed Years of Service	Severance ($)[2]	Resignation ($)	Retirement ($)[3]
David F. Denison President and CEO	7	2,650,104	880,000	1,953,800
Nicholas Zelenczuk SVP and CFO	3	708,750	431,000	959,600
Mark D. Wiseman EVP Investments	6	1,950,000	628,600	N/A
Donald M. Raymond SVP and Chief Investment Strategist	10	1,730,625	833,700	N/A
André Bourbonnais SVP Private Investments	6	1,584,375	545,900	N/A

[1] Excludes incentive compensation payouts for the current year which are included in Table 5: Summary Compensation.

[2] Excludes the value of insured benefits, such as health, dental and life insurance, continued during the severance period.

[3] Amounts included for those individuals who are retirement eligible. Eligible retirement payments are for LTIP, subject to the following criteria:

- Individual is at least 55 years of age, consistent with the early retirement provisions of the registered pension plan;
- Performance measured at end of the performance period;
- Payout is prorated based on length of service within performance period; and
- Payment is made at the end of the performance period.

DIRECTORS' COMPENSATION

The Governance Committee of the Board is responsible for making recommendations with respect to directors' compensation. Directors' compensation consists of an annual retainer, meeting fees and travel time allowances.

Directors' compensation is reviewed at least every two years and changes, if any, are recommended to the Board. In fiscal 2012, the Governance Committee engaged Mercer, a human resources consulting firm, to conduct a review of director compensation, including relative to the public pension funds referenced on page 76 with respect to officers' compensation.

The Board of Directors is the cornerstone of CPPIB's internationally recognized governance framework, especially in the performance of its oversight duties. Ensuring management accountability is particularly critical in balancing the organization's arm's length relationship with government. In accordance with subsections 10(10) and 12(5) of the *CPP Investment Board Act*, and as noted above, a comparative review was conducted during fiscal 2012 to ensure that the Board compensation continues to appropriately reflect significant internal and external developments, including the CPP Fund's growth, increased complexity of the investment programs, diversification of the portfolio, global expansion as well as intensifying competition for governance talent among institutional investment organizations internationally. Directors' compensation was augmented at the beginning of fiscal 2013 as a result. Details of the amended compensation are outlined in Table 9.

TABLE 9: DIRECTOR COMPENSATION

	Fee ($)	
	Fiscal 2012	Fiscal 2013
Annual Retainers		
Chair[1]	**120,000**	140,000
Director	**25,000**	32,500
Committee chair, additional retainer	**7,500**	10,000
Board Meeting	**1,500**	No change
Committee Meeting		
Investment Committee	**1,500**	No change
Other Committees	**1,250**	1,500
Meeting by Teleconference	**750**	No change
Travel Time Allowance (based on distance travelled)	**250 to 1,000**	No change
Biennial Public Meeting		
Director, chair of public meeting	**2,000**	No change
Director, attendance	**1,000**	No change
Non-meeting day travel	**1,000**	No change

[1] Chair receives an annual retainer but does not receive director or committee chair retainer fees, nor per meeting fees, unless the fees relate to the biennial public meetings.

BOARD ATTENDANCE

There were six regularly scheduled Board and Investment Committee meetings in fiscal 2012. The Investment Committee is composed of the full Board. The table below shows the number of meetings each director attended in fiscal 2012 relative to the number of meetings he or she could have attended.

TABLE 10: BOARD ATTENDANCE

DIRECTOR	Board Meeting[1]	Investment Committee[2]	Audit Committee[3]	Governance Committee[4]	Human Resources and Compensation Committee (HRCC)[5]
Robert M. Astley, Chair	9/9	10/11	–	5/6	–
Ian A. Bourne, Chair of Audit Committee	9/9	11/11	4/4	6/6	–
Robert L. Brooks	9/9	10/11	4/4	–	–
Pierre Choquette, Chair of HRCC	9/9	11/11	–	6/6	4/4
Michael Goldberg	9/9	11/11	4/4	6/6	–
Peter K. Hendrick	9/9	11/11	4/4	–	–
Nancy Hopkins, Chair of Governance Committee	8/9	8/11	–	5/6	–
Douglas W. Mahaffy	9/9	11/11	–	–	4/4
Elaine McKinnon	8/9	10/11	3/4	–	–
Heather Munroe-Blum	7/9	7/11	–	–	4/4
Ronald E. Smith[6]	7/9	8/11	–	1/1	2/4
D. Murray Wallace[6]	9/9	11/11	–	1/1	4/4

[1] Six in-person meetings and three teleconference meetings.
[2] Six in-person meetings and five teleconference meetings.
[3] Four in-person meetings.
[4] Four in-person meetings and two teleconference meetings.
[5] Three in-person meetings and one in-person/teleconference meeting.
[6] Attended Governance Committee by invitation.

During fiscal 2012, two ad hoc director candidate interview committees were formed; one for Nova Scotia and one for New Brunswick, Newfoundland and Prince Edward Island. Membership of the Nova Scotia committee consisted of Mr. Astley, Mr. Choquette, Ms. Hopkins and Mr. Smith. Membership of the New Brunswick, Newfoundland and Prince Edward Island committee consisted of Mr. Astley, Mr. Choquette, Ms. Hopkins and Mr. Wallace. The purpose of each committee is to interview potential candidates for a director from the respective jurisdiction and recommend at least two candidates to the joint federal-provincial nominating committee.

DIRECTOR COMPENSATION

Based on the attendance and fee schedules, individual compensation for each of the directors for fiscal 2012 was as follows:

TABLE 11: DIRECTOR COMPENSATION

DIRECTOR	Annual Retainer ($)	Board and Committee Meeting Fees ($)	Travel Fees ($)	Total Remuneration ($)
Robert M. Astley, Chair	120,000	–	–	120,000
Ian A. Bourne, Chair of Audit Committee	32,500	35,500	6,000	74,000
Robert L. Brooks	25,000	28,250	–	53,250
Pierre Choquette, Chair of HRCC[1]	32,500	38,750	7,000	78,250
Michael Goldberg	25,000	35,500	6,000	66,500
Peter K. Hendrick	25,000	29,000	–	54,000
Nancy Hopkins, Chair of Governance Committee[1,2]	32,500	33,000	8,000	73,500
Douglas W. Mahaffy	25,000	28,500	–	53,500
Elaine McKinnon	25,000	24,750	2,500	52,250
Heather Munroe-Blum[3]	25,000	25,000	1,750	51,750
Ronald E. Smith	25,000	22,500	2,500	50,000
D. Murray Wallace[4]	25,000	32,250	–	57,250
Total	417,500	333,000	33,750	784,250

[1] Meeting fees include attendance at three ad hoc Nova Scotia director candidate interview committee meetings.
[2] Meeting fees include attendance at two ad hoc New Brunswick, Newfoundland and Prince Edward Island director candidate interview committee meetings.
[3] Meeting fees include attendance at orientation session.
[4] Meeting fees include attendance at two ad hoc New Brunswick, Newfoundland and Prince Edward Island director candidate interview committee meetings.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The Financial Statements of the Canada Pension Plan Investment Board (the "CPP Investment Board") have been prepared by management and approved by the Board of Directors. Management is responsible for the integrity and reliability of the Financial Statements and the financial information contained within the Annual Report.

The Financial Statements have been prepared in accordance with Canadian generally accepted accounting principles. The Financial Statements include certain amounts based on management's judgments and best estimates where deemed appropriate. The significant accounting policies used are disclosed in note 1 to the Financial Statements. The financial information presented throughout the Annual Report is consistent with the Financial Statements.

The CPP Investment Board develops and maintains systems of internal control and supporting procedures. The systems of internal control are designed to provide reasonable assurance that assets are safeguarded; that transactions are properly recorded, authorized and are in accordance with the *Canada Pension Plan Investment Board Act*, the accompanying regulations, the by-laws and investment policies of the CPP Investment Board; and that there are no material misstatements in the Financial Statements or the financial information contained within the Annual Report. The internal control over financial reporting and disclosure controls and procedures are tested for both design and operational effectiveness as part of our CEO/CFO certification process as described on page 67 of Management's Discussion and Analysis in the 2012 Annual Report.

The internal control framework includes a strong corporate governance structure, an enterprise risk management framework that identifies, monitors and reports on key risks facing the organization, code of conduct and conflict of interest procedures, and other policies, management authorities and procedures that guide decision-making. The controls also include the establishment of an organization structure that provides a well-defined division of responsibilities and accountability, the selection and training of qualified staff, and the communication of policies, management authorities and procedures throughout the organization. The systems of internal control are further supported by a compliance management system to monitor the CPP Investment Board's compliance with legislation, policies, management authorities and procedures and by internal and external auditors who review and evaluate internal controls in accordance with their respective annual audit plans approved by the Audit Committee.

The Audit Committee assists the Board of Directors in discharging its responsibility to approve the annual Financial Statements. The Audit Committee, consisting of five independent directors, meets regularly with management and the internal and external auditors to discuss the scope and findings of audits and other work they may be requested to perform from time to time, to review financial information and to discuss the adequacy of internal controls. The Audit Committee reviews and approves the annual Financial Statements and recommends them to the Board of Directors for approval.

The CPP Investment Board's external auditor, Deloitte & Touche LLP, has conducted an independent examination of the Financial Statements in accordance with Canadian generally accepted auditing standards, performing such tests and other procedures as it considers necessary to express an opinion in its Auditor's Report. The external auditor has full and unrestricted access to management and the Audit Committee to discuss any findings related to the integrity and reliability of the CPP Investment Board's financial reporting and the adequacy of internal control systems.

D F Denison

DAVID F. DENISON
PRESIDENT AND CHIEF EXECUTIVE OFFICER
Toronto, Ontario
May 10, 2012

N. Zelenczuk

NICHOLAS ZELENCZUK
SENIOR VICE-PRESIDENT AND CHIEF FINANCIAL OFFICER

INVESTMENT CERTIFICATE

The *Canada Pension Plan Investment Board Act* (the "Act") requires that a certificate be signed by a director on behalf of the Board of Directors, stating that the investments of the CPP Investment Board held during the year were in accordance with the Act and the CPP Investment Board's investment policies, standards and procedures. Accordingly, the Investment Certificate follows.

The investments of the CPP Investment Board, held during the year ended March 31, 2012, were in accordance with the Act and the CPP Investment Board's investment policies, standards and procedures.

IAN A. BOURNE
CHAIR OF THE AUDIT COMMITTEE ON BEHALF OF THE BOARD OF DIRECTORS
Toronto, Ontario
May 10, 2012

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Canada Pension Plan Investment Board

We have audited the accompanying Financial Statements of the Canada Pension Plan Investment Board (the "CPP Investment Board"), which comprise the Balance Sheet and the Statements of Investment Portfolio and Investment Asset Mix as at March 31, 2012, and the Statements of Net Income and Accumulated Net Income from Operations and Changes in Net Assets for the year then ended, and a summary of significant accounting policies and other explanatory information.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these Financial Statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these Financial Statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the Financial Statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Financial Statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Financial Statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the Financial Statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the Financial Statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the Financial Statements present fairly, in all material respects, the financial position of the CPP Investment Board and the investments held as at March 31, 2012, and the results of its operations and changes in its net assets for the year then ended in accordance with Canadian generally accepted accounting principles, which were applied on a basis consistent with that of the preceding year.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Further, in our opinion, the transactions of the CPP Investment Board that have come to our notice during our audit of the Financial Statements have, in all significant respects, been in accordance with the *Canada Pension Plan Investment Board Act* (the "Act") and the by-laws, as the case may be.

Further, in our opinion, the record of investments kept by the CPP Investment Board's management pursuant to paragraph 39(1)(c) of the Act fairly presents, in all material respects, the information required by the Act.

Deloitte & Touche LLP

CHARTERED ACCOUNTANTS
LICENSED PUBLIC ACCOUNTANTS
May 10, 2012
Toronto, Ontario

BALANCE SHEET

As at March 31 ($ millions)		2012		2011
ASSETS				
Investments (note 3)	**$**	**176,038**	$	151,472
Amounts receivable from pending trades		**2,052**		1,085
Premises and equipment (note 4)		**56**		43
Other assets		**16**		15
TOTAL ASSETS		**178,162**		152,615
LIABILITIES				
Investment liabilities (note 3)		**13,695**		2,585
Amounts payable from pending trades		**2,587**		1,675
Accounts payable and accrued liabilities		**244**		159
TOTAL LIABILITIES		**16,526**		4,419
NET ASSETS	**$**	**161,636**	$	148,196
NET ASSETS, REPRESENTED BY				
Share capital (note 6)	**$**	**–**	$	–
Accumulated net income from operations		**49,287**		39,791
Accumulated net transfers from the Canada Pension Plan (note 7)		**112,349**		108,405
NET ASSETS	**$**	**161,636**	$	148,196

The accompanying notes are an integral part of these Financial Statements.

STATEMENT OF NET INCOME AND ACCUMULATED NET INCOME FROM OPERATIONS

For the year ended March 31 ($ millions)	2012	2011
NET INVESTMENT INCOME (note 8)	$ 9,936	$ 15,558
OPERATING EXPENSES		
Personnel costs	292	214
General operating expenses (note 9a)	117	85
Professional services (note 9b)	31	29
	440	328
NET INCOME FROM OPERATIONS	9,496	15,230
ACCUMULATED NET INCOME FROM OPERATIONS, BEGINNING OF YEAR	39,791	24,561
ACCUMULATED NET INCOME FROM OPERATIONS, END OF YEAR	$ 49,287	$ 39,791

STATEMENT OF CHANGES IN NET ASSETS

For the year ended March 31 ($ millions)	2012	2011
NET ASSETS, BEGINNING OF YEAR	$ 148,196	$ 127,630
CHANGES IN NET ASSETS		
Canada Pension Plan transfers (note 7)		
Transfers from the Canada Pension Plan	32,285	30,851
Transfers to the Canada Pension Plan	(28,341)	(25,515)
Net income from operations	9,496	15,230
INCREASE IN NET ASSETS FOR THE YEAR	13,440	20,566
NET ASSETS, END OF YEAR	$ 161,636	$ 148,196

The accompanying notes are an integral part of these Financial Statements.

STATEMENT OF INVESTMENT PORTFOLIO

The CPP Investment Board's investments are grouped by asset class based on the risk/return characteristics of the investment strategies of the underlying portfolios. The investments, before allocating derivative contracts, associated money market securities and other investment receivables and liabilities to the asset classes to which they relate, are as follows:

As at March 31 ($ millions)	2012	2011
EQUITIES (note 3a)		
Canada		
Public equities	$ 5,520	$ 8,864
Private equities	1,726	1,397
	7,246	10,261
Foreign developed markets		
Public equities	29,523	23,342
Private equities	23,161	20,349
	52,684	43,691
Emerging markets		
Public equities	8,188	5,776
Private equities	1,394	967
	9,582	6,743
TOTAL EQUITIES	69,512	60,695
FIXED INCOME (note 3b)		
Bonds	40,899	37,208
Inflation-linked bonds	1,050	299
Other debt	9,263	6,008
Money market securities	18,347	17,625
TOTAL FIXED INCOME	69,559	61,140
ABSOLUTE RETURN STRATEGIES[1] (note 3c)	6,915	4,464
REAL ASSETS (note 3d)		
Private real estate	18,996	11,368
Infrastructure	9,427	9,404
TOTAL REAL ASSETS	28,423	20,772
INVESTMENT RECEIVABLES		
Securities purchased under reverse repurchase agreements (note 3e)	–	2,500
Accrued interest	578	657
Derivative receivables (note 3f)	880	1,117
Dividends receivable	171	127
TOTAL INVESTMENT RECEIVABLES	1,629	4,401
TOTAL INVESTMENTS	$ 176,038	$ 151,472
INVESTMENT LIABILITIES		
Securities sold short (note 3g)	(8,596)	–
Debt financing liabilities (note 3h)	(2,408)	(1,394)
Debt on private real estate properties (note 3d)	(1,880)	(508)
Derivative liabilities (note 3f)	(811)	(683)
TOTAL INVESTMENT LIABILITIES	(13,695)	(2,585)
Amounts receivable from pending trades	2,052	1,085
Amounts payable from pending trades	(2,587)	(1,675)
NET INVESTMENTS	$ 161,808	$ 148,297

[1] Includes only investments in funds.

The accompanying notes are an integral part of these Financial Statements.

STATEMENT OF INVESTMENT ASSET MIX

This Statement of Investment Asset Mix is grouped by asset class based on the risk/return characteristics of the investment strategies of the underlying portfolios. The investments, after allocating derivative contracts, associated money market securities and other investment receivables and liabilities to the asset classes to which they relate, are as follows:

As at March 31 ($ millions)	2012		2011	
	Fair Value	**(%)**	Fair Value	(%)
EQUITIES				
Canada	**$ 14,181**	**8.8%**	$ 20,952	14.1%
Foreign developed markets	**56,739**	**35.1**	50,798	34.3
Emerging markets	**10,555**	**6.5**	7,619	5.1
	81,475	**50.4**	79,369	53.5
FIXED INCOME				
Bonds	**41,658**	**25.7**	37,601	25.3
Inflation-linked bonds	**3,194**	**2.0**	3,954	2.7
Other debt	**8,763**	**5.4**	6,073	4.1
Money market securities[1]	**2,544**	**1.6**	2,355	1.6
Debt financing liabilities	**(2,408)**	**(1.5)**	(1,394)	(0.9)
	53,751	**33.2**	48,589	32.8
REAL ASSETS				
Real estate[2]	**17,116**	**10.6**	10,860	7.3
Infrastructure	**9,466**	**5.8**	9,479	6.4
	26,582	**16.4**	20,339	13.7
NET INVESTMENTS	**$ 161,808**	**100%**	$148,297	100%

[1] Includes absolute return strategies' investments in funds and internally managed portfolios, as described in note 3c.

[2] Net of debt on private real estate properties, as described in note 3d.

The accompanying notes are an integral part of these Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2012

CORPORATE INFORMATION

The Canada Pension Plan Investment Board (the "CPP Investment Board") was established in December 1997 pursuant to the *Canada Pension Plan Investment Board Act* (the "Act"). The CPP Investment Board is a federal Crown corporation, all of the shares of which are owned by Her Majesty the Queen in right of Canada. The CPP Investment Board is responsible for assisting the Canada Pension Plan (the "CPP") in meeting its obligations to contributors and beneficiaries under the *Canada Pension Plan*. It is responsible for managing amounts that are transferred to it under Section 108.1 of the *Canada Pension Plan* in the best interests of CPP beneficiaries and contributors. The CPP Investment Board received its first funds for investing purposes from the CPP in March 1999. The CPP Investment Board's assets are to be invested in accordance with the Act, regulations and the investment policies with a view to achieving a maximum rate of return without undue risk of loss, having regard to the factors that may affect the funding of the CPP and the ability of the CPP to meet its financial obligations on any given business day.

The CPP Investment Board is exempt from Part I tax under paragraphs 149(1)(d) and 149(1)(d.2) of the *Income Tax Act (Canada)* on the basis that all of the shares of the CPP Investment Board are owned by Her Majesty the Queen in right of Canada or by a corporation whose shares are owned by Her Majesty the Queen in right of Canada, respectively.

The Financial Statements provide information on the net assets managed by the CPP Investment Board and do not include the pension liabilities of the CPP.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) BASIS OF PRESENTATION

These Financial Statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and the requirements of the Act and the accompanying regulations.

These Financial Statements present the financial position and results of operations of the CPP Investment Board. The CPP Investment Board qualifies as an Investment Company in accordance with Canadian Institute of Chartered Accountants Accounting Guideline 18, *Investment Companies*, and accordingly, the CPP Investment Board reports its investments at fair value.

Certain comparative figures have been reclassified to conform with the current-year financial statement presentation.

(B) VALUATION OF INVESTMENTS, INVESTMENT RECEIVABLES AND INVESTMENT LIABILITIES

Investments, investment receivables and investment liabilities are recorded on a trade date basis and are stated at fair value. Fair value is an estimate of the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

In an active market, fair value is best evidenced by an independent quoted market price. In the absence of an active market, fair value is determined by valuation techniques that make maximum use of inputs observed from markets. These valuation techniques include using recent arm's length market transactions, if available, or current fair value of another investment that is substantially the same, discounted cash flow analysis, pricing models and other accepted industry valuation methods.

Fair value is determined as follows:

(i) Fair value for publicly-traded equities, including equity short positions, is based on quoted market prices. Where market prices are not available or reliable, such as for those securities that are not sufficiently liquid, fair value is determined using accepted industry valuation methods.

(ii) Fair value for fund investments is generally based on the net asset value as reported by the external managers of the funds or other accepted industry valuation methods.

(iii) Private equity and infrastructure investments are either held directly or through ownership in limited partnership arrangements. The fair value for investments held directly is determined using accepted industry valuation methods. These methods include considerations such as earnings multiples of comparable publicly-traded companies, discounted cash flows using current market yields of instruments with similar characteristics and third party transactions, or other events which would suggest a change in the value of the investment. In the case of investments held through a limited partnership, fair value is generally determined based on relevant information reported by the General Partner using similar accepted industry valuation methods.

(iv) Fair value for marketable bonds is based on quoted market prices. Where the market price is not available, fair value is calculated using discounted cash flows based on current market yields of instruments with similar characteristics.

(v) Fair value for non-marketable Canadian government bonds is calculated using discounted cash flows based on current market yields of instruments with similar characteristics, adjusted for the non-marketability and rollover provisions of the bonds.

(vi) Fair value for direct investments in private debt and asset-backed securities is calculated using quoted market prices or accepted industry valuation methods such as discounted cash flows based on current market yields of instruments with similar characteristics.

(vii) Money market securities are recorded at cost, which, together with accrued interest income, approximates fair value due to the short-term nature of these securities.

(viii) Fair value for private real estate investments is determined using accepted industry valuation methods, such as discounted cash flows and comparable purchase and sales transactions. Debt on private real estate properties is valued using discounted cash flows based on current market yields for instruments with similar characteristics.

(ix) Fair value for inflation-linked bonds is based on quoted market prices.

(x) Fair value for intellectual property investments is determined using accepted industry valuation methods, such as discounted cash flows based on current market yields of instruments with similar characteristics, or other events which would suggest a change in the value of the investment.

(xi) Fair value for exchange-traded derivatives, which includes futures, options and warrants, is based on quoted market prices. Fair value for over-the-counter derivatives, which includes swaps, options, forward contracts and warrants, is determined based on the quoted market prices of the underlying instruments where available. Otherwise, fair value is based on other accepted industry valuation methods using inputs such as equity prices and indices, broker quotations, market volatilities, currency exchange rates, current market interest rate yields, credit spreads and other market-based pricing factors. In determining fair value, consideration is also given to liquidity risk and the credit risk of the counterparty.

(xii) Debt financing liabilities are recorded at the amount originally issued, which, together with accrued interest expense, approximates fair value due to the short-term nature of these liabilities.

(C) INCOME RECOGNITION

Income from investments includes realized gains and losses from investments, changes in unrealized gains and losses on investments, dividend income, interest income and net operating income from private real estate investments. Dividend income is recognized on the ex-dividend date, which is when the CPP Investment Board's right to receive the dividend has been established. Interest income is recognized using the effective interest rate method. Distributions received from limited partnerships and funds are recognized as interest income, dividend income, net operating income, realized gains and losses from investments or return of capital, as appropriate.

(D) TRANSACTION COSTS

Transaction costs are incremental costs that are directly attributable to the acquisition or disposal of an investment. Transaction costs are expensed as incurred and recorded as a component of net investment income.

(E) INVESTMENT MANAGEMENT FEES

Investment management fees are paid to investment managers for externally managed investments. Investment management fees are expensed as incurred and recorded as a component of net investment income.

(F) SECURITIES PURCHASED UNDER REVERSE REPURCHASE AGREEMENTS

Securities purchased under reverse repurchase agreements represent the purchase of securities effected with a simultaneous agreement to sell them back at a specified price at a specified future date and are accounted for as an investment receivable. These securities are not recognized as an investment of the CPP Investment Board. The fair value of securities to be resold under these reverse repurchase agreements is monitored and additional collateral is obtained when appropriate to protect against credit exposure. In the event of counterparty default, the CPP Investment Board has the right to liquidate the collateral held. Reverse repurchase agreements are carried on the Statement of Investment Portfolio at the amounts at which the securities were initially acquired. Interest earned on reverse repurchase agreements is included in investment income (see note 8).

(G) SECURITIES SOLD SHORT

Securities sold short represent securities sold, but not owned, by the CPP Investment Board. The CPP Investment Board has an obligation to cover these short positions which are accounted for as an investment liability based on the fair value of the securities sold. Collateral is pledged to the counterparty, when appropriate (see note 3i). Interest and dividend expense on securities sold short are included in investment income (see note 8).

(H) TRANSLATION OF FOREIGN CURRENCIES

Transactions denominated in foreign currencies are translated into Canadian dollars at exchange rates prevailing on the transaction date. Investments and other monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at exchange rates prevailing on the year-end date with any resulting foreign exchange gain or loss included in net gain (loss) on investments (see note 8).

(I) CANADA PENSION PLAN TRANSFERS

Net amounts from the CPP are recorded as received.

(J) USE OF ESTIMATES

The preparation of Financial Statements in accordance with Canadian GAAP requires management to make certain estimates and assumptions that affect the reported values of assets and liabilities as at the date of the financial statements and income and expenses during the reporting period. Significant estimates and judgments are required principally in determining the reported estimated fair values of investments since these determinations include estimates of expected future cash flows, rates of return and the impact of future events. Actual results could differ from those estimates.

(K) PREMISES AND EQUIPMENT

Premises and equipment are recorded at cost and amortized on a straight-line basis over their estimated useful lives as follows:

Computer equipment	3 years
Computer software	3 years
Office furniture and equipment	5 years
Leasehold improvements	over the term of the leases

(L) FUTURE ACCOUNTING POLICY CHANGE

INTERNATIONAL FINANCIAL REPORTING STANDARDS

In February 2008, the Canadian Accounting Standards Board ("AcSB") confirmed that Canadian GAAP for publicly accountable enterprises will be replaced with International Financial Reporting Standards ("IFRS") effective for our interim and annual periods commencing April 1, 2011. Subsequently, the AcSB granted Canadian investment companies an optional three-year deferral from the requirement to adopt IFRS.

The three-year deferral provides the International Accounting Standards Board ("IASB") time to complete its consolidation project. Under this project, the IASB issued an exposure draft in August 2011 entitled "Investment Entities" which would allow investment entities in Canada the ability to continue to measure all investments at fair value including those in controlled entities. The impact of this exposure draft on the CPP Investment Board will not be determinable until it has been finalized and approved by the IASB.

The CPP Investment Board has developed a conversion plan and is on schedule for its execution. The CPP Investment Board has identified the major differences between existing Canadian GAAP and IFRS. However, as IFRS continues to change, the CPP Investment Board cannot definitively comment on the impact these differences could have on its operations, financial position and results of operations. The CPP Investment Board continues to monitor developments and changes to IFRS.

2. FAIR VALUE MEASURMENT

(A) The following shows investments and investment liabilities recognized at fair value, analyzed between those whose fair value is based on:

> Quoted prices in active markets for identical assets or liabilities (Level 1);
> Those involving inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (Level 2); and
> Those with inputs for the asset or liability that are not based on observable market data (non-observable inputs) (Level 3).

	BASIS OF FAIR VALUE DETERMINATION			
	As at March 31, 2012			
($ millions)	Level 1	Level 2	Level 3	Total
INVESTMENTS				
EQUITIES				
Canada				
Public equities	$ 5,510	$ –	$ 10	$ 5,520
Private equities	–	–	1,726	1,726
	5,510	–	1,736	7,246
Foreign developed markets				
Public equities[1]	27,075	2,448	–	29,523
Private equities	1,014	–	22,147	23,161
	28,089	2,448	22,147	52,684
Emerging markets				
Public equities[1]	7,825	363	–	8,188
Private equities	–	–	1,394	1,394
	7,825	363	1,394	9,582
TOTAL EQUITIES	41,424	2,811	25,277	69,512
FIXED INCOME				
Bonds	17,600	23,299	–	40,899
Inflation-linked bonds	1,050	–	–	1,050
Other debt	–	4,468	4,795	9,263
Money market securities	–	18,347	–	18,347
TOTAL FIXED INCOME	18,650	46,114	4,795	69,559
ABSOLUTE RETURN STRATEGIES	–	5,816	1,099	6,915
REAL ASSETS				
Private real estate	–	1,520	17,476	18,996
Infrastructure	169	–	9,258	9,427
TOTAL REAL ASSETS	169	1,520	26,734	28,423
INVESTMENT RECEIVABLES				
Securities purchased under reverse repurchase agreements	–	–	–	–
Accrued interest	–	578	–	578
Derivative receivables	109	759	12	880
Dividends receivable	–	171	–	171
TOTAL INVESTMENT RECEIVABLES	109	1,508	12	1,629
TOTAL INVESTMENTS	60,352	57,769	57,917	176,038
INVESTMENT LIABILITIES				
Securities sold short	(8,596)	–	–	(8,596)
Debt financing liabilities	–	(2,408)	–	(2,408)
Debt on private real estate properties	–	(1,880)	–	(1,880)
Derivative liabilities	(32)	(779)	–	(811)
TOTAL INVESTMENT LIABILITIES	(8,628)	(5,067)	–	(13,695)
Amounts receivable from pending trades	–	2,052	–	2,052
Amounts payable from pending trades	–	(2,587)	–	(2,587)
NET INVESTMENTS	$ 51,724	$ 52,167	$ 57,917	$ 161,808

	BASIS OF FAIR VALUE DETERMINATION			
	As at March 31, 2011			
($ millions)	Level 1	Level 2	Level 3	Total
INVESTMENTS				
EQUITIES				
Canada				
Public equities	$ 8,859	$ –	$ 5	$ 8,864
Private equities	–	–	1,397	1,397
	8,859	–	1,402	10,261
Foreign developed markets				
Public equities[1]	20,840	2,001	501	23,342
Private equities	845	–	19,504	20,349
	21,685	2,001	20,005	43,691
Emerging markets				
Public equities[1]	5,614	162	–	5,776
Private equities	–	–	967	967
	5,614	162	967	6,743
TOTAL EQUITIES	36,158	2,163	22,374	60,695
FIXED INCOME				
Bonds	15,768	21,440	–	37,208
Inflation-linked bonds	299	–	–	299
Other debt	–	1,727	4,281	6,008
Money market securities	–	17,625	–	17,625
TOTAL FIXED INCOME	16,067	40,792	4,281	61,140
ABSOLUTE RETURN STRATEGIES	–	1,686	2,778	4,464
REAL ASSETS				
Private real estate	–	–	11,368	11,368
Infrastructure	1,082	–	8,322	9,404
TOTAL REAL ASSETS	1,082	–	19,690	20,772
INVESTMENT RECEIVABLES				
Securities purchased under reverse repurchase agreements	–	2,500	–	2,500
Accrued interest	–	657	–	657
Derivative receivables	170	914	33	1,117
Dividends receivable	–	127	–	127
TOTAL INVESTMENT RECEIVABLES	170	4,198	33	4,401
TOTAL INVESTMENTS	53,477	48,839	49,156	151,472
INVESTMENT LIABILITIES				
Securities sold short	–	–	–	–
Debt financing liabilities	–	(1,394)	–	(1,394)
Debt on private real estate properties	–	(508)	–	(508)
Derivative liabilities	(35)	(648)	–	(683)
TOTAL INVESTMENT LIABILITIES	(35)	(2,550)	–	(2,585)
Amounts receivable from pending trades	–	1,085	–	1,085
Amounts payable from pending trades	–	(1,675)	–	(1,675)
NET INVESTMENTS	$ 53,442	$ 45,699	$ 49,156	$ 148,297

[1] Includes investments in funds.

(B) TRANSFERS BETWEEN LEVEL 1 AND LEVEL 2

During the years ended March 31, 2012 and March 31, 2011, there were no significant transfers between Level 1 and Level 2.

(C) LEVEL 3 RECONCILIATION

The following presents the reconciliations for investments included in Level 3 of the fair value hierarchy for the year ended March 31:

	2012							
($ millions)	Fair Value as at April 1, 2011	Gains (Loss) Included in Net Investment Income[1]	Purchases	Sales[2]	Transfers into Level 3[3]	Transfers out of Level 3[4]	Fair Value as at March 31, 2012	Change in Unrealized Gains (Losses) on Investments Still Held at March 31, 2012[1,5]
INVESTMENTS								
EQUITIES								
Canada								
Public equities	$ 5	$ –	$ 5	$ –	$ –	$ –	$ 10	$ –
Private equities	1,397	(6)	429	(94)	–	–	1,726	2
	1,402	(6)	434	(94)	–	–	1,736	2
Foreign developed markets								
Public equities[6]	501	26	–	–	–	(527)	–	–
Private equities	19,504	2,209	4,257	(3,738)	–	(85)	22,147	882
	20,005	2,235	4,257	(3,738)	–	(612)	22,147	882
Emerging markets								
Private equities	967	117	405	(95)	–	–	1,394	81
	967	117	405	(95)	–	–	1,394	81
TOTAL EQUITIES	22,374	2,346	5,096	(3,927)	–	(612)	25,277	965
FIXED INCOME								
Other debt	4,281	(18)	2,803	(1,868)	–	(403)	4,795	(165)
TOTAL FIXED INCOME	4,281	(18)	2,803	(1,868)	–	(403)	4,795	(165)
ABSOLUTE RETURN STRATEGIES	2,778	309	655	(419)	–	(2,224)	1,099	190
REAL ASSETS								
Private real estate	11,368	1,265	5,766	(923)	–	–	17,476	1,238
Infrastructure	8,322	690	395	(149)	–	–	9,258	582
TOTAL REAL ASSETS	19,690	1,955	6,161	(1,072)	–	–	26,734	1,820
INVESTMENT RECEIVABLES								
Derivative receivables	33	(21)	–	–	–	–	12	(21)
TOTAL INVESTMENT RECEIVABLES	33	(21)	–	–	–	–	12	(21)
TOTAL	$ 49,156	$ 4,571	$14,715	$ (7,286)	$ –	$ (3,239)	$57,917	$ 2,789

2011								
($ millions)	Fair Value as at April 1, 2010	Gains Included in Net Investment Income[1]	Purchases	Sales[2]	Transfers into Level 3[3]	Transfers out of Level 3[4]	Fair Value as at March 31, 2011	Change in Unrealized Gains (Losses) on Investments Still Held at March 31, 2011[1,5]
INVESTMENTS								
EQUITIES								
Canada								
Public equities	$ 2	$ 3	$ –	$ –	$ –	$ –	$ 5	$ 3
Private equities	985	223	380	(191)	–	–	1,397	153
	987	226	380	(191)	–	–	1,402	156
Foreign developed markets								
Public equities[6]	482	19	–	–	–	–	501	19
Private equities	13,877	2,981	5,313	(2,526)	–	(141)	19,504	2,590
	14,359	3,000	5,313	(2,526)	–	(141)	20,005	2,609
Emerging markets								
Private equities	512	155	344	(44)	–	–	967	141
	512	155	344	(44)	–	–	967	141
TOTAL EQUITIES	15,858	3,381	6,037	(2,761)	–	(141)	22,374	2,906
FIXED INCOME								
Other debt	2,855	351	2,143	(1,068)	–	–	4,281	291
TOTAL FIXED INCOME	2,855	351	2,143	(1,068)	–	–	4,281	291
ABSOLUTE RETURN STRATEGIES	2,233	147	669	(271)	–	–	2,778	388
REAL ASSETS								
Private real estate	7,466	940	3,120	(158)	–	–	11,368	887
Infrastructure	4,840	379	4,153	(1,050)	–	–	8,322	419
TOTAL REAL ASSETS	12,306	1,319	7,273	(1,208)	–	–	19,690	1,306
INVESTMENT RECEIVABLES								
Derivative receivables	5	28	–	–	–	–	33	28
TOTAL INVESTMENT RECEIVABLES	5	28	–	–	–	–	33	28
TOTAL	$ 33,257	$ 5,226	$ 16,122	$ (5,308)	$ –	$ (141)	$ 49,156	$ 4,919

[1] Presented as net gain (loss) on investments (see note 8).
[2] Includes return of capital.
[3,4] Transfers into and out of Level 3 are assumed to occur at the end of year values.
[5] Includes the entire change in fair value for the year for those investments that were transferred into Level 3 during the year, and excludes the entire change in fair value for the year for those investments that were transferred out of Level 3 during the year.
[6] Consists of investments in funds.

Investments transferred out of Level 3 during the years ended March 31, 2012 and March 31, 2011 were primarily the result of:

(i) Transfers from Level 3 to Level 1 occurred as these investments became listed on an active market for which quoted market prices were obtained.

(ii) Transfers from Level 3 to Level 2 for certain investments in funds resulted from increased transparency of the inputs used to determine fair value.

Direct investments in private equities, infrastructure, private real estate, private debt, intellectual property and certain derivatives have fair values derived primarily from assumptions based on non-observable market data. The fair value of these direct investments is based on accepted industry valuation methods that may include the use of estimates made by management, appraisers or both where significant judgment is required. By using valuation methods based on reasonable alternative assumptions, different fair values could result. Management has determined that the potential impact on fair values using these reasonable alternative assumptions would not be significant.

3. INVESTMENTS AND INVESTMENT LIABILITIES

The CPP Investment Board manages the following types of investments and investment liabilities:

(A) EQUITIES

(i) Public equity investments are made directly or through funds. As at March 31, 2012, public equities include fund investments with a fair value of $2,811 million (2011 – $2,665 million).

(ii) Private equity investments are generally made directly or through ownership in limited partnership arrangements which have a typical term of 10 years. The private equity investments represent equity ownerships or investments with the risk and return characteristics of equity. As at March 31, 2012, private equities include direct investments with a fair value of $6,676 million (2011 – $5,565 million).

(B) FIXED INCOME

(i) Bonds consist of non-marketable and marketable bonds.

The non-marketable bonds issued by the provinces prior to 1998 have rollover provisions attached to them by the Act which permit each issuer, at its option, to roll over the bonds on maturity for a further 20-year term at a rate based on capital markets borrowing rates for that province existing at the time of rollover. The non-marketable bonds are also redeemable before maturity at the option of the issuers.

In lieu of exercising its statutory rollover right described in the preceding paragraph, agreements between the CPP Investment Board and the provinces permit each province to repay the bond and concurrently cause the CPP Investment Board to purchase a replacement bond or bonds in a total principal amount not exceeding the principal amount of the maturing security for a term of not less than five years and not greater than 30 years. Such replacement bonds contain rollover provisions that permit the issuer, at its option, to roll over the bond for successive terms of not less than five years and subject in all cases to the maximum 30 years outside maturity date. The replacement bonds are also redeemable before maturity at the option of the issuers.

The terms to maturity of the non-marketable and marketable bonds, not including any rollover options or accrued interest, as at March 31, 2012, are as follows:

	2012						2011	
	Terms to Maturity							
($ millions)	Within 1 Year	1 to 5 Years	6 to 10 Years	Over 10 Years	Total	Average Effective Yield	Total	Average Effective Yield
NON-MARKETABLE BONDS								
Government of Canada	$ 11	$ –	$ –	$ –	$ 11	1.0%	$ 28	1.7%
Canadian provincial government	1,531	1,188	5,646	14,923	23,288	3.6	21,412	4.6
MARKETABLE BONDS								
Government of Canada	–	4,467	908	1,735	7,110	2.2	5,315	3.2
Canadian provincial government	–	1,221	1,616	2,332	5,169	3.3	4,279	4.2
Canadian government corporations	–	2,011	1,735	395	4,141	2.5	3,706	3.5
Foreign government	–	–	–	–	–	–	1,495	2.6
Corporate bonds	51	730	380	19	1,180	3.3	973	4.3
TOTAL	$ 1,593	$ 9,617	$ 10,285	$ 19,404	$ 40,899	3.2%	$ 37,208	4.2%

(ii) The terms to maturity of the inflation-linked bonds, as at March 31, 2012, are as follows:

	2012						2011	
	Terms to Maturity							
($ millions)	Within 1 Year	1 to 5 Years	6 to 10 Years	Over 10 Years	Total	Average Effective Yield	Total	Average Effective Yield
Inflation-linked bonds	$ –	$ –	$ 132	$ 918	$ 1,050	0.4%	$ 299	1.1%

(iii) Other debt consists of investments in direct private debt, asset-backed securities, intellectual property, distressed mortgage funds and private debt funds. The terms to maturity of the direct private debt and asset-backed securities, as at March 31, 2012, are as follows:

	2012						2011	
	Terms to Maturity							
($ millions)	Within 1 Year	1 to 5 Years	6 to 10 Years	Over 10 Years	Total	Average Effective Yield	Total	Average Effective Yield
DIRECT PRIVATE DEBT								
PRIVATE INVESTMENTS								
Leveraged loans	$ 71	$ 1,391	$ 573	$ 277	$ 2,312	7.1%	$ 2,017	7.0%
High-yield debt	–	160	1,659	–	1,819	11.0	874	9.7
Secured term loan	–	99	–	–	99	7.0	136	7.3
PRIVATE REAL ESTATE								
Mezzanine debt	–	469	–	358	827	6.7	–	–
ASSET-BACKED SECURITIES	7	173	411	–	591	1.2	–	–
TOTAL	$ 78	$ 2,292	$ 2,643	$ 635	$ 5,648	7.7%	$ 3,027	7.8%

(C) ABSOLUTE RETURN STRATEGIES

Absolute return strategies consist of investments in funds and internally managed portfolios whose objective is to generate positive returns regardless of market conditions, that is, returns with a low correlation to broad market indices. The underlying securities of the funds and the internally managed portfolios could include, but are not limited to, equities, fixed income securities and derivatives.

(D) REAL ASSETS

(i) The CPP Investment Board obtains exposure to real estate through direct investments in privately held real estate and real estate funds.

Private real estate investments are managed on behalf of the CPP Investment Board by investment managers primarily through co-ownership arrangements. As at March 31, 2012, these investments include assets of $18,996 million (2011 – $11,368 million) and secured debt of $1,880 million (2011 – $508 million). The terms to maturity of the undiscounted principal repayments of the secured debt, as at March 31, 2012, are as follows:

	2012							2011		
	Terms to Maturity									
($ millions)	Within 1 Year	1 to 5 Years	6 to 10 Years	Over 10 Years	Total	Fair Value	Weighted Average Interest Rate	Total	Fair Value	Weighted Average Interest Rate
Debt on private real estate properties	$ 22	$ 212	$ 61	$ 1,565	$ 1,860	$ 1,880	5.0%	$ 494	$ 508	6.3%

(ii) Infrastructure investments are generally made directly, but can also occur through limited partnership arrangements that have a typical term of 10 years. As at March 31, 2012, infrastructure includes direct investments with a fair value of $9,116 million (2011 – $7,899 million).

(E) SECURITIES PURCHASED UNDER REVERSE REPURCHASE AGREEMENTS

As at March 31, 2012, the securities purchased under reverse repurchase agreements of $nil (2011 – $2,500 million) have an average effective yield of nil% (2011 – 2.7%).

(F) DERIVATIVE CONTRACTS

A derivative contract is a financial contract, the value of which is derived from the value of underlying assets, indices, interest rates, currency exchange rates or other market-based factors. Derivatives are transacted through regulated exchanges or are negotiated in over-the-counter markets.

Notional amounts of derivative contracts represent the contractual amounts to which a rate or price is applied for computing the cash flows to be exchanged. The notional amounts are used to determine the gains/losses and fair value of the contracts. They are not recorded as assets or liabilities on the Balance Sheet. Notional amounts do not necessarily represent the amount of potential market risk or credit risk arising from a derivative contract.

The fair value of these contracts is reported as derivative receivables and derivative liabilities on the Statement of Investment Portfolio. In the Statement of Investment Asset Mix, the derivative contracts are allocated to the asset class to which each contract relates.

The CPP Investment Board uses derivatives to generate value-added investment returns and to limit or adjust market, credit, interest rate, currency, and other financial exposures without directly purchasing or selling the underlying instrument.

(i) The CPP Investment Board uses the following types of derivative instruments as described below:

Equity Contracts

Equity futures are standardized contracts transacted on an exchange to purchase or sell a specified quantity of an equity index, a basket of stocks, or a single stock at a predetermined ce and date in the future. Futures contracts may be cash-settled or require physical delivery of the underlying asset.

Equity swaps are over-the-counter contracts in which one counterparty agrees to pay or receive from the other, cash flows based on changes in the value of an equity index, a basket of stocks, or a single stock in exchange for a return based on a fixed or floating interest rate or the return on another instrument.

Variance swaps are over-the-counter contracts where cash flows are exchanged based on the realized variance of an equity index, a basket of stocks, or a single stock compared to the fixed strike level specified in the contract.

Equity options are contractual agreements where the seller (writer) gives the purchaser the right, but not the obligation, to buy or sell a specified quantity of an equity index, a basket of stocks, or a single stock at or before a specified future date at a predetermined price. The seller receives a premium from the purchaser for this right. The CPP Investment Board purchases (buys) and writes (sells) equity options. Equity options may be transacted in standardized amounts on regulated exchanges or customized in over-the-counter markets.

Written put options may require the CPP Investment Board to purchase the underlying asset at any time at a fixed date or within a fixed future period. The maximum amount payable under the terms of the written put options is equal to their notional amount.

Warrants are transacted both over-the-counter and through exchanges where the issuer gives the purchaser the right, but not the obligation, to buy a specified quantity of stock of the issuer at or before a specified future date at a predetermined price.

Foreign Exchange Contracts

Foreign exchange forwards are customized over-the-counter contracts negotiated between counterparties to either purchase or sell a specified amount of foreign currencies at a predetermined price and date in the future. These contracts result in a fixed future foreign exchange rate for a period of time.

Interest Rate Contracts

Bond futures are standardized contracts transacted on an exchange to purchase or sell a specified quantity of a bond index, a basket of bonds, or a single bond at a predetermined price and date in the future. Futures contracts may be cash-settled or require physical delivery of the underlying asset.

Interest rate futures are standardized contracts transacted on an exchange to purchase or sell a specified amount of an interest rate sensitive financial instrument at a predetermined price and date in the future. These contracts result in a fixed future interest rate for a period of time. Futures contracts may be cash-settled or require physical delivery of the underlying asset.

Interest rate forwards are customized over-the-counter contracts negotiated between counterparties to either purchase or sell a specified amount of an interest rate sensitive financial instrument at a predetermined price and date in the future. These contracts result in a fixed future interest rate for a period of time.

Bond and inflation-linked bond swaps are over-the-counter contracts in which counterparties exchange the return on a bond, inflation-linked bond or group of such instruments for the return on a fixed or floating interest rate or the return on another instrument.

Interest rate swaps are over-the-counter contracts where counterparties exchange cash flows based on different interest rates applied to a notional amount in a single currency. A typical interest rate swap would require one counterparty to pay a fixed market interest rate in exchange for a variable market interest rate on a specified notional amount. No exchange of notional amount takes place. Cross-currency interest rate swaps involve the exchange of both interest and notional amounts in two different currencies.

Credit Contracts

Credit default swaps are over-the-counter contracts that transfer the credit risk of an underlying financial instrument (referenced asset) from one counterparty to another. The CPP Investment Board purchases (buys) and writes (sells) credit default swaps that provide protection against the decline in value of an underlying financial instrument (referenced asset) as a result of a specified credit event such as default or bankruptcy. The purchaser (buyer) pays a premium to the writer (seller) in return for payment contingent on a credit event affecting the referenced asset.

Written credit default swaps require the CPP Investment Board to compensate counterparties for the decline in value of an underlying financial instrument (referenced asset) as a result of the occurrence of a specified credit event such as default or bankruptcy. The maximum amount payable to these counterparties under these written credit default swaps is equal to their notional amount.

Commodity Contracts

Commodity futures are standardized contracts transacted on an exchange to purchase or sell a specified quantity of a commodity, such as precious metals and energy-related products at a predetermined price and date in the future. Futures contracts may be cash-settled or require physical delivery of the underlying commodity.

Other Derivative Contracts
Other derivative contracts include over-the-counter derivative contracts in which two counterparties agree to exchange cash flows based on the change in the value on a combination of equities, fixed income securities or derivatives for a return based on a fixed or floating interest rate.

(ii) *Derivative-related Risk*
The primary risks associated with derivatives are:

Market Risk
Derivatives generate value, positive or negative, as the value of underlying assets, indices, interest rates, currency exchange rates, or other market-based factors change such that the previously contracted terms of the derivative transactions have become more or less favourable than what can be negotiated under current market conditions for contracts with the same terms and remaining period to expiry. The potential for derivatives to increase or decrease in value as a result of the foregoing factors is generally referred to as market risk.

The derivative-related market risk is a component of the total portfolio market risk which is managed through the Risk/Return Accountability Framework as described in note 10.

Credit Risk
Credit risk is the risk of a financial loss occurring as a result of the failure of a counterparty to meet its obligations to the CPP Investment Board. The maximum exposure to credit risk is represented by the positive fair value of the derivative instrument and is normally a small fraction of the contract's notional amount. Negotiated over-the-counter derivatives generally present greater credit exposure than exchange-traded contracts. Credit risk on exchange-traded contracts is limited, as these transactions are executed on regulated exchanges, each of which is associated with a well-capitalized clearing house that assumes the obligation of the writer of a contract and guarantees their performance.

The CPP Investment Board limits credit risk on over-the-counter contracts through a variety of means including dealing only with authorized counterparties which meet the minimum credit rating and limiting the maximum exposures to any individual counterparty, the use of master netting agreements and collateral as discussed in note 10.

(iii) The fair value of derivative contracts held is as follows:

($ millions)	As at March 31, 2012 Positive Fair Value	Negative Fair Value	Net Fair Value	For the Year Ended March 31, 2012 Average Positive Fair Value[1]	Average Negative Fair Value[1]
EQUITY CONTRACTS					
Equity futures	$ 51	$ (18)	$ 33	$ 84	$ (79)
Equity swaps	336	(287)	49	513	(383)
Variance swaps	39	(47)	(8)	27	(79)
Exchange-traded purchased options	–	–	–	–	–
Over-the-counter written options	7	–	7	–	(2)
Warrants	58	–	58	121	–
TOTAL EQUITY CONTRACTS	491	(352)	139	745	(543)
FOREIGN EXCHANGE CONTRACTS					
Forwards	314	(260)	54	382	(432)
TOTAL FOREIGN EXCHANGE CONTRACTS	314	(260)	54	382	(432)
INTEREST RATE CONTRACTS					
Bond futures	9	(11)	(2)	18	(28)
Interest rate forwards	–	–	–	–	–
Interest rate futures	–	–	–	–	–
Bond swaps	4	(2)	2	5	(2)
Inflation-linked bond swaps	3	–	3	23	(13)
Interest rate swaps	37	(111)	(74)	30	(97)
Cross-currency interest rate swaps	16	–	16	15	–
TOTAL INTEREST RATE CONTRACTS	69	(124)	(55)	91	(140)
CREDIT CONTRACTS					
Purchased credit default swaps	24	(34)	(10)	26	(26)
Written credit default swaps	14	(20)	(6)	5	(7)
TOTAL CREDIT CONTRACTS	38	(54)	(16)	31	(33)
COMMODITY CONTRACTS					
Commodity futures	9	(5)	4	2	(1)
TOTAL COMMODITY CONTRACTS	9	(5)	4	2	(1)
Other derivative contracts	16	(16)	–	3	(3)
SUBTOTAL	937	(811)	126	1,254	(1,152)
Less: Cash collateral received under derivative contracts	(57)	–	(57)	(26)	–
TOTAL	$ 880	$ (811)	$ 69	$ 1,228	$ (1,152)

	As at March 31, 2011			For the Year Ended March 31, 2011	
($ millions)	Positive Fair Value	Negative Fair Value	Net Fair Value	Average Positive Fair Value[1]	Average Negative Fair Value[1]
EQUITY CONTRACTS					
Equity futures	$ 8	$ (29)	$ (21)	$ 16	$ (24)
Equity swaps	566	(295)	271	376	(275)
Variance swaps	40	(32)	8	20	(97)
Exchange-traded purchased options	–	–	–	–	–
Over-the-counter written options	–	–	–	–	(73)
Warrants	187	–	187	197	–
TOTAL EQUITY CONTRACTS	801	(356)	445	609	(469)
FOREIGN EXCHANGE CONTRACTS					
Forwards	222	(251)	(29)	275	(277)
TOTAL FOREIGN EXCHANGE CONTRACTS	222	(251)	(29)	275	(277)
INTEREST RATE CONTRACTS					
Bond futures	7	(5)	2	7	(5)
Interest rate forwards	–	–	–	–	–
Interest rate futures	–	–	–	–	–
Bond swaps	–	(5)	(5)	13	(10)
Inflation-linked bond swaps	40	(2)	38	60	(12)
Interest rate swaps	14	(29)	(15)	12	(57)
Cross-currency interest rate swaps	14	–	14	12	–
TOTAL INTEREST RATE CONTRACTS	75	(41)	34	104	(84)
CREDIT CONTRACTS					
Purchased credit default swaps	17	(32)	(15)	24	(30)
Written credit default swaps	2	(2)	–	3	(4)
TOTAL CREDIT CONTRACTS	19	(34)	(15)	27	(34)
COMMODITY CONTRACTS					
Commodity futures	–	(1)	(1)	–	–
TOTAL COMMODITY CONTRACTS	–	(1)	(1)	–	–
Other derivative contracts	–	–	–	–	–
SUBTOTAL	1,117	(683)	434	1,015	(864)
Less: Cash collateral received under derivative contracts	–	–	–	(17)	–
TOTAL	$ 1,117	$ (683)	$ 434	$ 998	$ (864)

[1] Determined using month-end values.

(iv) The terms to maturity of the notional amounts for derivative contracts held as at March 31 are as follows:

	2012				
	Terms to Maturity				
($ millions)	Within 1 year	1 to 5 years	6 to 10 years	Over 10 years	Total
EQUITY CONTRACTS					
Equity futures	$ 14,479	$ –	$ –	$ –	$ 14,479
Equity swaps	29,824	169	–	–	29,993
Variance swaps	87	893	4,232	–	5,212
Exchange-traded purchased options	–	–	–	–	–
Over-the-counter written options	999	–	–	–	999
Warrants	19	471	71	–	561
TOTAL EQUITY CONTRACTS	45,408	1,533	4,303	–	51,244
FOREIGN EXCHANGE CONTRACTS					
Forwards	44,279	–	–	–	44,279
TOTAL FOREIGN EXCHANGE CONTRACTS	44,279	–	–	–	44,279
INTEREST RATE CONTRACTS					
Bond futures	9,986	–	–	–	9,986
Interest rate forwards	–	–	–	–	–
Interest rate futures	445	–	–	–	445
Bond swaps	2,024	–	–	–	2,024
Inflation-linked bond swaps	2,132	–	–	–	2,132
Interest rate swaps	331	7,581	1,699	507	10,118
Cross-currency interest rate swaps	–	–	133	–	133
TOTAL INTEREST RATE CONTRACTS	14,918	7,581	1,832	507	24,838
CREDIT CONTRACTS					
Purchased credit default swaps	163	720	1,137	–	2,020
Written credit default swaps	93	659	437	–	1,189
TOTAL CREDIT CONTRACTS	256	1,379	1,574	–	3,209
COMMODITY CONTRACTS					
Commodity futures	446	–	–	–	446
TOTAL COMMODITY CONTRACTS	446	–	–	–	446
Other derivative contracts	809	–	–	–	809
TOTAL	$ 106,116	$ 10,493	$ 7,709	$ 507	$ 124,825

	2011				
	Terms to Maturity				
($ millions)	Within 1 year	1 to 5 years	6 to 10 years	Over 10 years	Total
EQUITY CONTRACTS					
Equity futures	$ 10,301	$ –	$ –	$ –	$ 10,301
Equity swaps	31,476	137	–	–	31,613
Variance swaps	–	954	4,123	–	5,077
Exchange-traded purchased options	–	–	–	–	–
Over-the-counter written options	–	–	–	–	–
Warrants	21	499	67	–	587
TOTAL EQUITY CONTRACTS	41,798	1,590	4,190	–	47,578
FOREIGN EXCHANGE CONTRACTS					
Forwards	27,766	–	–	–	27,766
TOTAL FOREIGN EXCHANGE CONTRACTS	27,766	–	–	–	27,766
INTEREST RATE CONTRACTS					
Bond futures	8,847	–	–	–	8,847
Interest rate forwards	–	–	–	–	–
Interest rate futures	–	–	–	–	–
Bond swaps	976	–	–	–	976
Inflation-linked bond swaps	3,696	–	–	81	3,777
Interest rate swaps	279	1,003	693	75	2,050
Cross-currency interest rate swaps	–	–	133	–	133
TOTAL INTEREST RATE CONTRACTS	13,798	1,003	826	156	15,783
CREDIT CONTRACTS					
Purchased credit default swaps	–	617	451	–	1,068
Written credit default swaps	–	126	60	–	186
TOTAL CREDIT CONTRACTS	–	743	511	–	1,254
COMMODITY CONTRACTS					
Commodity futures	108	–	–	–	108
TOTAL COMMODITY CONTRACTS	108	–	–	–	108
Other derivative contracts	19	–	–	–	19
TOTAL	$ 83,489	$ 3,336	$ 5,527	$ 156	$ 92,508

(G) SECURITIES SOLD SHORT

As at March 31, 2012, securities sold short of $8,596 million (2011 – $nil) are considered repayable within one year based on the earliest period in which the counterparty could request payment under certain conditions. The securities sold short have a weighted average interest rate of 0.19% (2011 – nil%).

(H) DEBT FINANCING LIABILITIES

The terms to maturity of the undiscounted principal repayments of the debt financing liabilities as at March 31, 2012, are as follows:

	2012						2011		
	Terms to Maturity								
($ millions)	Within 1 Month	1 to 6 Months	7 months to 1 Year	Total	Fair Value	Weighted Average Interest Rate	Total	Fair Value	Weighted Average Interest Rate
Commercial paper payable	$ 1,189	$ 909	$ 315	$ 2,413	$ 2,408	1.1%	$ 1,396	$ 1,394	1.1%

(I) COLLATERAL

Collateral transactions are conducted under the terms and conditions that are common and customary to collateral arrangements. The net fair value of collateral held and pledged as at March 31, is as follows:

($ millions)	2012	2011
Assets held as collateral on:		
Reverse repurchase agreements[1]	$ –	$ 2,561
Over-the-counter derivative transactions[1]	200	135
Assets pledged as collateral on:		
Over-the-counter derivative transactions	–	–
Securities sold short	(10,937)	–
Debt on private real estate properties	(2,008)	–
Guarantees (see note 12)	(141)	(132)
TOTAL	$ (12,886)	$ 2,564

[1] The fair value of the collateral held that may be sold or repledged as at March 31, 2012 is $143 million (2011 – $2,588 million). The fair value of collateral sold or repledged as at March 31, 2012 is $nil (2011 – $nil).

4. PREMISES AND EQUIPMENT

	2012			2011		
($ millions)	Cost	Accumulated Amortization	Net Carrying Amount	Cost	Accumulated Amortization	Net Carrying Amount
Computer equipment	$ 23	$ 13	$ 10	$ 18	$ 9	$ 9
Computer software	54	28	26	38	18	20
Leasehold improvements	29	13	16	20	10	10
Office furniture and equipment	11	7	4	9	5	4
TOTAL	$ 117	$ 61	$ 56	$ 85	$ 42	$ 43

5. CREDIT FACILITIES

The CPP Investment Board maintains $1.5 billion (2011 – $1.5 billion) of unsecured credit facilities to meet potential liquidity requirements. As at March 31, 2012, the total amount drawn on the credit facilities is $nil (2011 – $nil).

6. SHARE CAPITAL

The issued and authorized share capital of the CPP Investment Board is $100 divided into 10 shares having a par value of $10 each. The shares are owned by Her Majesty the Queen in right of Canada.

7. CANADA PENSION PLAN TRANSFERS

Pursuant to Section 108.1 of the *Canada Pension Plan*, the Act and an administrative agreement between Her Majesty the Queen in right of Canada and the CPP Investment Board, amounts not required to meet specified obligations of the CPP are transferred weekly to the CPP Investment Board. The funds originate from employer and employee contributions to the CPP.

The CPP Investment Board is also responsible for providing cash management services to the CPP, including the periodic return, on at least a monthly basis, of funds required to meet CPP benefits and expenses.

The accumulated transfers from the CPP since inception are as follows:

($ millions)	2012	2011
Accumulated transfers from the Canada Pension Plan	**$ 275,648**	$ 243,363
Accumulated transfers to the Canada Pension Plan	**(163,299)**	(134,958)
ACCUMULATED NET TRANSFERS FROM THE CANADA PENSION PLAN	**$ 112,349**	$ 108,405

8. NET INVESTMENT INCOME

Net investment income is reported net of transaction costs and investment management fees, and is grouped by asset class based on the risk/return characteristics of the investment strategies of the underlying portfolios.

Net investment income, after giving effect to derivative contracts and investment receivables and liabilities, is as follows:

	2012					
($ millions)	Investment Income (Loss)[1]	Net Gain (Loss) on Investments[2,3,4]	Total Investment Income (Loss)	Investment Management Fees	Transaction Costs	Net Investment Income (Loss)
EQUITIES						
Canada						
Public equities	$ 178	$ (2,347)	$ (2,169)	$ (30)	$ (15)	$ (2,214)
Private equities	125	(5)	120	(10)	(1)	109
	303	(2,352)	(2,049)	(40)	(16)	(2,105)
Foreign developed markets						
Public equities	594	(208)	386	(32)	(21)	333
Private equities	272	2,500	2,772	(253)	(22)	2,497
	866	2,292	3,158	(285)	(43)	2,830
Emerging markets						
Public equities	176	(650)	(474)	(3)	(6)	(483)
Private equities	1	116	117	(34)	–	83
	177	(534)	(357)	(37)	(6)	(400)
	1,346	(594)	752	(362)	(65)	325
FIXED INCOME						
Bonds	1,481	3,174	4,655	–	–	4,655
Inflation-linked bonds	148	483	631	–	–	631
Other debt	516	109	625	(21)	(2)	602
Money market securities[5]	541	594	1,135	(194)	(31)	910
Debt financing liabilities	(15)	–	(15)	–	–	(15)
	2,671	4,360	7,031	(215)	(33)	6,783
REAL ASSETS						
Private real estate	756	1,178	1,934	(69)	(116)	1,749
Infrastructure	429	668	1,097	(4)	(14)	1,079
	1,185	1,846	3,031	(73)	(130)	2,828
TOTAL	$ 5,202	$ 5,612	$ 10,814	$ (650)	$ (228)	$ 9,936

($ millions)	Investment Income (Loss)[1]	Net Gain on Investments[2,3,4]	Total Investment Income (Loss)	Investment Management Fees	Transaction Costs	Net Investment Income (Loss)
	2011					
EQUITIES						
Canada						
Public equities	$ 264	$ 3,151	$ 3,415	$ (8)	$ (12)	$ 3,395
Private equities	1	223	224	(11)	(2)	211
	265	3,374	3,639	(19)	(14)	3,606
Foreign developed markets						
Public equities	629	1,578	2,207	(31)	(13)	2,163
Private equities	276	3,121	3,397	(214)	(13)	3,170
	905	4,699	5,604	(245)	(26)	5,333
Emerging markets						
Public equities	132	502	634	(1)	(4)	629
Private equities	(2)	155	153	(28)	–	125
	130	657	787	(29)	(4)	754
	1,300	8,730	10,030	(293)	(44)	9,693
FIXED INCOME						
Bonds	1,415	145	1,560	–	–	1,560
Inflation-linked bonds	153	199	352	–	–	352
Other debt	240	506	746	(15)	(5)	726
Money market securities[5]	145	1,004	1,149	(109)	(37)	1,003
Debt financing liabilities	(10)	–	(10)	–	–	(10)
	1,943	1,854	3,797	(124)	(42)	3,631
REAL ASSETS						
Private real estate	451	916	1,367	(77)	(58)	1,232
Infrastructure	370	667	1,037	(6)	(29)	1,002
	821	1,583	2,404	(83)	(87)	2,234
TOTAL	$ 4,102	$ 12,129	$ 16,231	$ (500)	$ (173)	$ 15,558

[1] Includes interest income, dividends, private real estate operating income (net of interest expense), interest expense on the debt financing liabilities, and other investment-related income and expenses.

[2] Includes realized gains and losses from investments, and unrealized gains and losses on investments held at the end of the year.

[3] Includes foreign exchange gains of $495 million (2011 – losses of $1,403 million).

[4] Includes net unrealized gains of $1,768 million (2011 – unrealized gains of $1,307 million) which represents the change in fair value estimated on direct investments in private equities, infrastructure, private real estate, private debt, intellectual property and certain derivatives, where the fair value is derived primarily from assumptions based on non-observable market data.

[5] Includes absolute return strategies, consisting of investments in funds and internally managed portfolios.

9. OPERATING EXPENSES

(A) GENERAL OPERATING EXPENSES

General operating expenses for the year ended March 31 consist of the following:

($ millions)	2012	2011
Operational business services	$ 49	$ 31
Premises	24	16
Amortization of premises and equipment	19	16
Custodial fees	13	12
Travel and accommodation	8	6
Communications	2	2
Directors' remuneration	1	1
Other	1	1
TOTAL	**$ 117**	$ 85

(B) PROFESSIONAL SERVICES

Professional services for the year ended March 31 consist of the following:

($ millions)	2012	2011
Consulting	$ 25	$ 21
Legal	4	6
External audit and audit-related services[1]	1	1
Tax services	1	1
TOTAL	**$ 31**	$ 29

[1] Includes fees paid to the external auditor of the CPP Investment Board for audit services of $1.3 million (2011 – $1.1 million), and audit-related services of $0.1 million (2011 – $0.1 million).

10. INVESTMENT RISK MANAGEMENT

The CPP Investment Board is exposed to a variety of financial risks as a result of its investment activities. These risks include market risk, credit risk and liquidity risk. The CPP Investment Board manages and mitigates financial risks through the Risk/Return Accountability Framework that is contained within the investment policies approved by the Board of Directors at least once every fiscal year. This framework contains risk limits and risk management provisions that govern investment decisions and has been designed to achieve the mandate of the CPP Investment Board which is to invest its assets with a view to achieving a maximum rate of return, without undue risk of loss, having regard to the factors that may affect the funding of the CPP and the ability of the CPP to meet its financial obligations on any given business day.

Included within the Risk/Return Accountability Framework is an active risk limit which represents a limit on the amount of investment risk that the CPP Investment Board can take relative to the CPP Reference Portfolio. The CPP Reference Portfolio is approved by the Board of Directors and serves as a performance benchmark against which the CPP Investment Board's value-added activities are measured. It represents a low-cost strategic alternative to the CPP Investment Portfolio. The objective of the CPP Investment Board is to create value-added investment returns greater than the returns that would be generated by the CPP Reference Portfolio. The CPP Investment Board monitors the active risk in the CPP Investment Portfolio daily and reports active risk exposures to the Board of Directors on at least a quarterly basis. Financial risk management is discussed in greater detail on page 32 in the Risk/Return Accountability Framework section of Management's Discussion and Analysis in the 2012 Annual Report.

(A) MARKET RISK: Market risk (including currency risk, interest rate risk and other price risk) is the risk that the fair value or future cash flows of an investment or investment liability will fluctuate because of changes in market prices and rates. As discussed previously, the CPP Investment Board manages market risk through the Risk/Return Accountability Framework. This includes investing across a wide spectrum of asset classes and investment strategies to earn a diversified risk premium at the total fund level, based on risk limits established in the investment policies. In addition, derivatives are used, where appropriate, to manage certain market risk exposures. Market risk comprises the following:

Currency Risk: The CPP Investment Board is exposed to currency risk through holdings of investments or investment liabilities in various currencies. Fluctuations in the relative value of foreign currencies against the Canadian dollar can result in a positive or negative effect on the fair value or future cash flows of these investments and investment liabilities.

In Canadian dollars, the net underlying currency exposures, after allocating foreign currency derivatives, as at March 31 are as follows:

($ millions)	2012		2011	
Currency	**Net Exposure**	**% of Total**	Net Exposure	% of Total
United States Dollar	**$ 55,090**	**57%**	$ 42,419	54%
Euro	**13,413**	**14**	12,005	15
British Pound Sterling	**8,933**	**9**	7,689	10
Australian Dollar	**4,689**	**5**	4,743	6
Japanese Yen	**4,166**	**4**	4,173	5
Hong Kong Dollar	**2,326**	**2**	1,576	2
Swedish Krona	**1,695**	**2**	1,266	2
Other	**7,274**	**7**	4,950	6
TOTAL	**$ 97,586**	**100%**	$ 78,821	100%

Interest Rate Risk: Interest rate risk is the risk that the fair value or future cash flows of an investment will fluctuate because of changes in market interest rates. The CPP Investment Board's interest-bearing investments are exposed to interest rate risk.

Other Price Risk: Other price risk is the risk that the fair value or future cash flows of an investment will fluctuate because of changes in market prices arising primarily from equity price risk, commodity price risk and credit spread risk, whether those changes are caused by factors specific to the individual investment or factors affecting all securities traded in the market.

In addition to the above, the CPP Investment Board is indirectly exposed to market risk on the underlying securities of fund investments.

Value at Risk

CPP Investment Board uses a Value at Risk ("VaR") methodology to monitor market risk exposure and credit risk exposure (see note 10(b)) in the CPP Investment Portfolio. VaR is a statistical technique that is used to estimate the potential loss in value of an investment as a result of movements in market rates and prices over a specified time period and for a specified confidence level.

VaR is valid under normal market conditions and does not specifically consider losses arising from severe market events. It also assumes that historical market data is a sound basis for estimating potential future losses. If future market conditions and interrelationships of interest rates, foreign exchange rates and other market prices differ significantly from those of the past, then the actual losses could materially differ from those estimated. The VaR measure provides an estimate of a single value in a distribution of potential losses that the CPP Investment Portfolio could experience. It is not an estimate of the worst-case scenario.

Market VaR calculated by the CPP Investment Board is estimated using a historical simulation method, evaluated at a 90% confidence level and scaled to a one-year holding period. The significant assumption used in this method is the incorporation of the most recent 10 years of weekly market returns.

Credit VaR is estimated using a Monte Carlo simulation incorporating a one-year investment horizon. Significant assumptions under this method include using the most recent two-years' market factor indices to determine ratings-based correlations between defaults and downgrades of credit exposures, and using empirically derived ratings transition and default rates. In order to estimate Credit VaR, a sufficient number of scenarios are generated to simulate the low probability credit events that materially impact the value distribution.

Under the historical and Monte Carlo simulation methods for estimating VaR, it is also assumed that the public market proxies used to represent investment returns on those investments valued with inputs that are based on non-observable market data (e.g. those for private real estate and private equities) are reasonable for estimating their contribution to the VaR.

Market and Credit VaR are estimated at the same confidence level and are combined using an appropriate positive correlation approved by the Investment Planning Committee ("IPC") to provide an Integrated Active Risk number.

The CPP Investment Board monitors the active risk of the CPP Investment Portfolio relative to the CPP Reference Portfolio.

As at March 31, VaR, at a 90% confidence level, indicates that one year in 10 the portfolio can be expected to lose at least the following amounts:

	2012	
($ millions)	**VaR**	**% of CPP Investment Portfolio[1]**
CPP Reference Portfolio	**$ 15,815**	**9.9%**
CPP Investment Portfolio Active Market Risk	**$ 3,805**	**2.4%**
CPP Investment Portfolio[2]	**$ 17,974**	**11.2%**
CPP Investment Portfolio Credit VaR	**$ 336**	**0.2%**
CPP Investment Portfolio Integrated Active Market and Credit VaR[3]	**$ 3,870**	**2.4%**

	2011	
($ millions)	VaR	% of CPP Investment Portfolio[1]
CPP Reference Portfolio	$ 14,612	9.9%
CPP Investment Portfolio Active Market Risk	$ 2,835	1.9%
CPP Investment Portfolio[2]	$ 16,400	11.1%
CPP Investment Portfolio Credit VaR	$ 415	0.3%
CPP Investment Portfolio Integrated Active Market and Credit VaR[3]	$ 2,946	2.0%

[1] Excludes certain assets where the market risk exposure is not monitored using VaR, such as the assets of the Cash for Benefits Portfolio which is a separately managed short-term cash management program designed to facilitate monthly benefit payments by the CPP.

[2] CPP Investment Portfolio VaR is less than the sum of the CPP Reference Portfolio VaR and CPP Investment Portfolio Active Market Risk due to the beneficial impact of risk diversification.

[3] Market and Credit VaR are combined using an assumed positive correlation under normal market conditions.

(B) **CREDIT RISK:** Credit risk is the risk of financial loss due to a counterparty failing to meet its contractual obligations, or a reduction in the value of the assets due to a decline in the credit quality of the borrower, counterparty, guarantor or the assets (collateral) supporting the credit exposure. The CPP Investment Board's most significant exposure to credit risk is through its investment in debt securities and over-the-counter derivatives (as discussed in note 3f). The carrying amounts of these investments as presented in the Statement of Investment Portfolio represent the maximum credit risk exposure at the balance sheet date.

The Credit Committee, a sub-committee of the IPC, which is chaired by the Chief Operations Officer, is accountable for ensuring that credit risks and credit exposures are identified, measured and monitored regularly, independently of the investment departments, and communicated at least monthly to the IPC and at least quarterly to the Board of Directors. The IPC, chaired by the Chief Investment Strategist, is accountable for monitoring and managing the total portfolio strategic risk exposures and providing strategic direction to the investment departments. The Credit Committee's primary focus is on emerging risks that may impact the credit exposures of the CPP Investment Board, including analysis of credit risks that may not be adequately captured within current credit risk models or credit exposure calculations. Such risks include correlation risk, market risk related to credit spread movements, and funding and liquidity risks from a credit point of view. Credit risk measurement and reporting are performed by experienced risk managers within the Investment Risk group ("IR"). IR monitors Board-approved exposure limits, provides detailed analysis of single-name and sector exposures, and oversees the credit risk inherent in certain fund investments. Credit VaR is the common measure of credit risk across all investment strategies. IR works closely with the investment departments to provide an evaluation of the credit risk created by significant transactions. Detailed reports of credit risk and counterparty exposures are provided weekly to management, monthly to members of the IPC, and on a regular basis to the Credit Committee.

The CPP Investment Board manages credit risk by setting overall credit exposure limits within categories that include credit rating, region, and financial institution. The Board of Directors approves the credit exposure limits at least once every fiscal year. Counterparties are assigned a credit rating as determined by recognized credit rating agencies, where available, and/or as determined through an internal credit rating process. Where the internal credit rating is lower than the rating determined by a recognized credit rating agency, the internal credit rating will prevail. Credit exposure to any single counterparty is limited to a maximum amount as specified in the investment policies. The Credit Committee has also established single-name sub-limits within the credit exposure limits to mitigate risks arising from concentrated exposures to financial institution counterparties. IR measures and monitors credit exposure daily for compliance to approved credit limits and reports to the IPC at least monthly, or more frequently as necessary, and on a regular basis to the Credit Committee.

The fair value of debt securities and over-the-counter derivatives exposed to credit risk, by credit rating category and without taking account of any collateral held or other credit enhancements as at March 31 are as follows:

	2012						
CREDIT RATING ($ millions)	**Bonds**[1,2]	**Money Market Securities**[1]	**Reverse Repurchase Agreements**[1,4]	**Over-the-Counter Derivatives**	**Other**[1,3]	**Total**	**% of Total**
AAA/R-1 (high)	$ 14,685	$ 5,423	$ –	$ 108	$ 61	$ 20,277	31%
AA/R-1 (mid)	20,917	10,726	–	326	487	32,456	49
A/R-1 (low)	5,858	774	–	268	74	6,974	11
BBB/R-2	568	–	–	101	767	1,436	2
BB/R-3	387	–	–	–	1,253	1,640	2
B/R-4	26	–	–	–	2,397	2,423	4
CCC/D	–	–	–	–	654	654	1
TOTAL	$ 42,441	$ 16,923	$ –	$ 803	$ 5,693	$ 65,860	100%

CREDIT RATING ($ millions)	2011 Bonds[1,2]	Money Market Securities[1]	Reverse Repurchase Agreements[1,4]	Over-the-Counter Derivatives	Other[1,3]	Total	% of Total
AAA/R-1 (high)	$ 13,046	$ 8,976	$ –	$ 339	$ –	$ 22,361	37%
AA/R-1 (mid)	18,763	4,848	2,503	512	–	26,626	44
A/R-1 (low)	5,323	2,665	–	64	–	8,052	13
BBB/R-2	552	–	–	–	258	810	1
BB/R-3	364	–	–	–	828	1,192	2
B/R-4	5	–	–	–	1,875	1,880	3
CCC/D	–	–	–	–	98	98	–
TOTAL	$ 38,053	$ 16,489	$ 2,503	$ 915	$ 3,059	$ 61,019	100%

[1] Includes accrued interest.
[2] Includes inflation-linked bonds.
[3] Includes direct investments in private debt and asset-backed securities.
[4] As at March 31, 2012 fixed income securities with a fair value of $nil (2011 – $2,561 million) and a AAA credit rating were held as collateral which mitigates the credit risk exposure on the reverse repurchase agreements (see note 3i).

Credit risk exposure on over-the-counter derivatives is mitigated through the use of master netting agreements and collateral within International Swaps and Derivatives Association ("ISDA") Master Agreements. Master netting agreements are entered into with all counterparties so that, if an event of default occurs, all amounts with the counterparty are terminated and settled on a net basis. Credit support annexes are negotiated with certain counterparties and require that collateral, in the form of cash or fixed income securities, be provided to the CPP Investment Board when the positive fair value of the derivative contract exceeds certain threshold amounts. As at March 31, 2012, master netting agreements and collateral held reduced the credit risk exposure to over-the-counter derivatives from $803 million to $72 million (2011 – $915 million to $326 million).

In addition to the above, the CPP Investment Board is indirectly exposed to credit risk on the underlying securities of fund investments.

(C) **LIQUIDITY RISK:** Liquidity risk is the risk of being unable to generate sufficient cash or its equivalent in a timely and cost-effective manner to meet investment commitments and investment liabilities as they come due. The CPP Investment Board mitigates liquidity risk through its unsecured credit facilities (see note 5) available in the amount of $1.5 billion (2011 – $1.5 billion) and the ability to readily dispose of certain investments that are traded in an active market. These include a liquid portfolio of publicly-traded equities, money market securities, marketable bonds and inflation-linked bonds.

The CPP Investment Board is also exposed to liquidity risk through its responsibility for providing cash management services to the CPP (see note 7). In order to manage liquidity risk associated with this short-term cash management program, certain assets are segregated and managed separately. Liquidity risk is also managed by investing these assets in liquid money market instruments with the primary objective of ensuring the CPP has the necessary liquidity to meet benefit payment obligations on any business day.

11. COMMITMENTS

The CPP Investment Board has entered into commitments related to the funding of investments. These commitments are generally payable on demand based on the funding needs of the investment subject to the terms and conditions of each agreement. As at March 31, 2012, the commitments total $16.6 billion (2011 – $16.3 billion).

As at March 31, 2012, the CPP Investment Board has made lease and other commitments of $126.3 million (2011 – $37.7 million) that will be paid over the next 13 years.

12. GUARANTEES AND INDEMNIFICATIONS

(A) GUARANTEES

As part of certain investment transactions, the CPP Investment Board has agreed to guarantee, as at March 31, 2012, up to $0.2 billion (2011 – $0.6 billion) to other counterparties in the event certain subsidiaries and other entities default under the terms of loan and other related agreements.

(B) INDEMNIFICATIONS

The CPP Investment Board provides indemnifications to its officers, directors, certain others and, in certain circumstances, to various counterparties and other entities. The CPP Investment Board may be required to compensate these indemnified parties for costs incurred as a result of various contingencies such as changes in laws and regulations and litigation claims. The contingent nature of these indemnification agreements prevents the CPP Investment Board from making a reasonable estimate of the maximum potential payments the CPP Investment Board could be required to make. To date, the CPP Investment Board has not received any claims nor made any payments pursuant to such indemnifications.

GOVERNANCE PRACTICES OF THE BOARD OF DIRECTORS

This section sets out certain key governance practices of the Board of Directors. More extensive governance information is posted on our website.

ENSURING BEST PRACTICES

Preserving a governance model in which the CPP Investment Board operates at arm's length from governments with an investment-only mandate.

DUTIES, OBJECTIVES AND MANDATE OF THE BOARD OF DIRECTORS

The Board is responsible for the stewardship of the CPP Investment Board, including oversight of management.

Directors are required to act honestly and in good faith with a view to the best interests of CPPIB, and exercise the care, diligence and skill that a reasonably prudent person would apply in comparable circumstances. Directors must employ any expertise or skill they possess in carrying out their duties.

Among other duties, the directors appoint the CEO and annually review his or her performance; set compensation policies and approve senior management compensation; determine with management the organization's strategic direction; review and approve investment policies, standards and procedures; approve investment risk limits; review and approve the annual business plan and budget; appoint the external auditor; establish procedures to identify and resolve conflicts of interest; establish a Code of Conduct for directors and employees; assess the performance of the Board itself including an annual Chair and peer review; establish other policies relating to such matters as authorities, procurement, travel and expenses; and review and approve material disclosures such as quarterly and annual financial statements and the Annual Report. In addition, the directors approve large investment transactions that exceed management's delegated authority and regularly review results of investment decisions. A detailed description of the activities of the Board committees is found on page 126.

Succession planning is also a key responsibility of the Board of Directors. In February 2012, the Board of Directors announced the retirement of President and CEO David Denison effective June 30, 2012 and the appointment of Mark Wiseman, currently Executive Vice-President, Investments, as his successor effective July 1, 2012. This appointment was part of a deliberate, longer-term succession plan that the Board commenced approximately three years ago when Mr. Denison advised of his intent to retire in 2012.

A key part of the carefully designed governance structure that balances independence with accountability is that investment professionals are accountable to an independent Board of Directors operating at arm's length from governments with an investment-only mandate. This mandate is to be undertaken without regard to political, regional, social or economic development considerations or any other non-investment objectives.

CPPIB's Code of Conduct provides that Board members shall not participate in any political activity that could be incompatible with their duties, impact their ability to carry out their duties in a politically impartial fashion or cast doubt on the integrity, objectivity or impartiality of the organization. Directors, like officers and employees, have a duty in accordance with the written Code of Conduct to report immediately any attempted political interference if they have been subjected to such pressure with respect to investments, procurement, hiring or any other decisions; no such reports of interference have ever been made.

DIRECTOR APPOINTMENT PROCESS

The director appointment process is designed to ensure that the Board has directors with proven financial ability or relevant work experience such that CPPIB will be able to effectively achieve its objectives. Directors are appointed by the federal Governor in Council on the recommendation of the federal finance minister, following the minister's consultation with the finance ministers of the participating provinces and assisted by an external nominating committee with private sector involvement.

CPPIB provides assistance identifying desirable director competencies and retains and manages an executive search firm to source qualified candidates for consideration. As part of this director search process, the Board of Directors determines the key skills or areas of expertise required by the Board as a whole, and conducts a formal requirements analysis before determining the desirable competencies of a new director. These are then used to set search qualifications to guide the search. Once finalized, the names of qualified candidates are forwarded to the external nominating committee, which considers them and submits names of qualified candidates to the federal finance minister.

Detailed biographies of the CPPIB Board of Directors are on pages 130 and 131 and identify each director's background and business or financial experience.

COMPOSITION, MANDATES AND ACTIVITIES OF BOARD COMMITTEES

The Board has four committees – Investment, Audit, Human Resources and Compensation, and Governance. Membership of the committees is shown in the Board Attendance chart on page 88.

The Investment Committee oversees the CPP Investment Board's core business, which is making investment decisions within the context of a Board-approved risk limit. The committee reviews and recommends to the Board the CPP Investment Board's investment policies and reviews, approves and monitors the investment program. It also reviews portfolio risk tolerances, approves the engagement of all external investment managers in accordance with the governing statute, and approves large investment transactions and all custodians. All members of the Board serve on the Investment Committee.

The Audit Committee's oversight of financial reporting includes reviewing the Management's Discussion and Analysis section of the Annual Report, reviewing and recommending the financial content of the Annual Report, and monitoring the external and internal audit functions. The newly in-sourced Internal Audit function is described on page 63. This Committee's oversight also involves appointing the internal auditor and recommending the external auditor for appointment by the Board. As a related matter, the Audit Committee also reviews information systems and internal control policies and practices. The Audit Committee also oversees financial aspects of the employee pension plans and advises the Board in connection with any statutorily mandated Special Examinations. Responsibility for enterprise risk management is shared with the Board and the Investment Committee. The Audit Committee regularly meets separately with each of the external and internal auditors without management present.

The Human Resources and Compensation Committee (HRCC) administers the performance evaluation process for the CEO, reviews and recommends the compensation framework, reviews organizational structure and ensures proper succession planning. It also oversees employee benefits and human resources policies and the employee pension plans. The role of the HRCC is further outlined in the Compensation Discussion and Analysis beginning on page 74.

The Governance Committee ensures that the CPP Investment Board follows appropriate governance best practices and is involved in preparing and recommending this governance practices section of the Annual Report. The committee monitors application of the Code of Conduct and recommends amendments; ensures on an ongoing basis that the Board's governance documents reflect governance best practices; makes recommendations to the Board to improve the Board's effectiveness; oversees the design of director orientation and ongoing director education programs; reviews criteria and qualifications for new directors; recommends compensation for the Chair and directors; and establishes, recommends and is involved in performance evaluation processes for the Chair, individual directors, Board committees and the Board.

At every meeting, the Board of Directors and all committees have *in camera* sessions, meaning that no member of management is in attendance. As noted above, the Audit Committee also has *in camera* meetings with each of the internal and external auditors. In addition, at every meeting, the Board has *in camera* meetings with the President and CEO, in which no other management team member is present.

DECISIONS REQUIRING PRIOR BOARD APPROVAL

Management's discretion in making operational and investment decisions is described in Board- or committee-approved policies, including a detailed policy dealing exclusively with authorities. In particular, Board approval is required for the strategic direction of the organization and for the annual business plan and budget. Annual and incentive-based compensation, as well as officer appointments, also require Board approval.

INVESTMENT IN ONGOING DEVELOPMENT

PROCEDURES FOR BOARD MEMBER ORIENTATION AND DEVELOPMENT

The Board has a process in place for new director orientation. This comprehensive, full-day session includes discussion of the background, history and mandate of CPPIB as well as its strategy, business planning process and current corporate and departmental business plans. It involves the advance provision to the new director of background material and intensive interaction at the session between the new directors and management. Several directors have attended a supplemental orientation session to further solidify their knowledge of the organization.

In recognition of the evolving nature of a director's responsibilities and the unique nature of CPPIB, in-house development for all directors is a key focus for the Board. Management business presentations are provided on an ongoing basis. Special development seminars outside the regular meeting context are also provided featuring both external and internal experts.

In fiscal 2012, these education seminars included sessions on: population aging, shifting demographics and the global economy; review of comparative investment organization structures; strategic view of India's current and future role in the global economy; and an overview of sovereign debt issues globally. Directors are also encouraged to attend external educational seminars and programs relevant to their CPPIB duties.

A COMMITMENT TO ACCOUNTABILITY

PROCEDURES FOR THE ASSESSMENT OF BOARD PERFORMANCE

Soon after its inception in October 1998, the Board established an annual process for evaluating its own performance and that of its committees, the performance of the Chair, and the performance of each director, and has since that time focused on improving and refining that process. All assessments are currently conducted through confidential questionnaires. Summaries of the results of the Board and committee evaluations are reviewed by the full Board and provide a basis for action plans for improvement. The confidential annual Chair review is led by the chair of the Governance Committee who, subject to the direction of the Board, provides feedback to the Chair. The feedback is also relevant to the issue of reappointment of the Chair when his or her term expires. The confidential annual peer review is led by the Chair, and is designed to assist each director in identifying self-development initiatives and assist in providing the external nominating committee with guidance when it considers individual reappointments. After receipt of relevant questionnaire feedback, the Chair meets formally with each director as part of the Board and individual director assessment process. As noted above, the Board continues to refine and bolster these procedures each year.

In fiscal 2012, the Governance Committee undertook a comprehensive review and update of the Board competencies and related gap analysis in order to continue to ensure a robust Board membership with industry experience and qualifications.

To ensure independence among directors, the Board of Directors also follows leading practices by monitoring interlocking relationships including Board and committee interlocks. During fiscal 2012, we had one Board and committee interlock whereby Pierre Choquette and Douglas Mahaffy both serve on the Board of Methanex Corporation and sit together on the Human Resources and Compensation Committee.

BOARD EXPECTATIONS OF MANAGEMENT

Management is expected to comply with the *Canada Pension Plan Investment Board Act* and regulations, all policies approved by the Board as well as others acting in accordance with applicable law. Management develops, with involvement from the Board, the strategic direction of the organization in response to its growing asset management responsibilities and the outlook for capital markets. The strategy incorporates risk management policies and controls as well as monitoring and reporting mechanisms. Management is also expected to sustain and promote a culture of the highest integrity, which appropriately manages any conflicts of interest, and to adhere to a stringent Code of Conduct.

Management is charged with developing benchmarks that objectively measure the performance of the markets and asset classes in which CPP assets are invested. Once approved by the Board, benchmarks assist the Board in evaluating management's investment performance and structuring performance-based compensation incentives.

The implementation of the CPP Reference Portfolio in fiscal 2007 established a relevant benchmark for the CPP Fund. This has enabled management to more precisely measure total CPP Fund value-added returns, enabling the Board to tailor compensation more precisely to performance. The CPP Reference Portfolio is reviewed on an ongoing basis to ensure that it continues to reflect the passive, low-cost, low-complexity portfolio that would best contribute to the achievement of the CPP Investment Board's mandate. In fiscal 2012, the Board approved changes to the CPP Reference Portfolio as described on page 25.

Management is expected to make full and timely disclosure to the Board and the public of all material activities. This includes new investments, the engagement of operational and investment partners, quarterly and annual financial results, and developments that may affect CPPIB's reputation.

TOTAL COMPENSATION OF DIRECTORS AND EXECUTIVE OFFICERS

The total compensation of directors, including meeting and travel fees, is provided in the Compensation Discussion and Analysis on page 74.

The Board of Directors is the cornerstone of CPPIB's internationally recognized governance framework, especially in the performance of its oversight duties. Ensuring management accountability is particularly critical in balancing the organization's arm's length relationship with government. In accordance with subsections 10(10) and 12(5) of the *CPP Investment Board Act*, a comparative review was conducted during fiscal 2012 to ensure that the Board compensation continues to appropriately reflect significant internal and external developments, including the CPP Fund's growth, increased complexity of the investment programs, diversification of the portfolio, global expansion, as well as intensifying competition for governance talent among institutional investment organizations internationally. Directors' compensation was augmented at the beginning of fiscal 2013 as a result. Details of the amended compensation are set out on page 87.

A separate independent compensation consulting firm, Hugessen Consulting Inc., advises the Human Resources and Compensation Committee on executive compensation. Management compensation is predominantly incentive-based through calculations that link pay to performance, and is reviewed annually by the Board. Incentive compensation is awarded based on the achievement of a combination of personal objectives and four-year rolling average investment performance and is composed of short- and long-term incentives. A focus on CPP Fund performance functions as a check on individual risk-taking in pursuit of value-added results.

The CPP Reference Portfolio benchmark enables the Board to tailor management compensation more precisely toward the successful achievement of value-added results as part of a pay-for-performance system. Consistent with the Human Resources and Compensation Committee's emphasis on leading disclosure practices, management compensation is detailed at length in our Compensation Discussion and Analysis on page 74.

A CULTURE OF INTEGRITY AND ETHICAL CONDUCT

CONFLICT OF INTEREST PROCEDURES

Conflicts of interest were anticipated in CPPIB's legislation as a result of the need to recruit directors with financial and investment expertise and to engage employees with financial expertise. The Code of Conduct has been established to manage and, where possible, eliminate such conflicts. The procedures under the legislation and the Code of Conduct are designed to ensure that directors and employees do not, and cannot reasonably be perceived to, or have the potential to, profit or otherwise benefit from a transaction by or with the CPP Investment Board or be otherwise influenced by factors other than the best interests of the CPP Investment Board. Stringent disclosure of any personal or business interests that might lead to a real, perceived or potential conflict of interest is required, and any involvement in relevant decision-making is prohibited should those circumstances arise. Further, directors are expected to resign from the Board if they take on executive responsibilities with an organization whose objectives and mandates may be, or may reasonably be perceived to be, in conflict with the objectives and mandate of the CPP Investment Board.

It is CPPIB's policy that non-audit services being provided by either the internal or external auditor must be approved by the Audit Committee. Firms that perform any internal or external audit services must also affirm that the provision of non-audit services does not impair their independence.

CODE OF CONDUCT

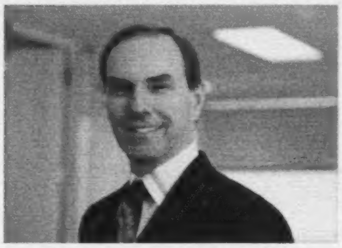
The Code of Conduct can be found on our website. It is designed to help create a corporate culture of trust, honesty and integrity. It deals with such matters as relations with suppliers, personal investments and confidentiality of proprietary information. For example, the Code establishes strict pre-clearance procedures for personal trading in securities. It also sets out strict limits on the acceptance by directors and employees of entertainment, gifts or special treatment that could create or appear to create a favoured position for actual or potential contractors or suppliers.

As part of the hiring process for all employees, new recruits are required to read and agree to comply with the Code of Conduct and related personal trading guidelines that together set a high standard in the areas of conflict of interest and ethical conduct. They must reconfirm that compliance semi-annually and complete an online training module to confirm their understanding of the Code and their ability to apply it in day-to-day operations.

When the Board hires or conducts annual performance reviews of the CEO, it takes into consideration the individual's leadership in championing and fostering a culture of Integrity, Partnership and High Performance, as well as promoting ethical conduct within the organization. These same factors are also relevant to the reviews of other officers.

To augment the Code of Conduct, the Board of Directors decided in 2003 to appoint an external conduct review advisor. This individual, currently the Honourable Frank Iacobucci, is available to discuss Code of Conduct issues with directors, employees and relevant third parties on a confidential basis.

BOARD OF DIRECTORS



ROBERT M. ASTLEY, CHAIR [1*,2]
Fellow, Canadian Institute of Actuaries
Waterloo, Ontario
Director since September 2006. Appointed Chair effective October 2008.
Former president of Sun Life Financial Canada, former president and CEO of Clarica Life Insurance Company. Director of the Bank of Montreal and chair of its human resources committee. Former chair of Canadian Life and Health Insurance Association and of Wilfrid Laurier University. Qualifications include extensive senior management experience in pension and life and health insurance financial services, including oversight of the successful integration of Clarica with Sun Life Financial.

IAN A. BOURNE [1,2,3*]
Corporate Director
Calgary, Alberta
Director since April 2007
Retired executive vice-president and CFO of TransAlta Corporation, a power generation company, and president of TransAlta Power L.P. Over 35 years of experience in senior finance roles at TransAlta, General Electric and Canada Post Corporation. Current Vice-Chair and Interim Chief Executive Officer of SNC-Lavalin Group Inc., Chair of Ballard Power Systems Inc. Director of Canadian Oil Sands Limited, Wajax Corporation, and the Canadian Public Accountability Board. Former director of TransAlta Power L.P., TransAlta CoGeneration, L.P. and Purolator Courier Ltd. Qualifications include expertise in finance in major corporations and international experience in Paris and London.

ROBERT L. BROOKS [1,3]
Corporate Director
Toronto, Ontario
Director since January 2009
Former vice-chair and group treasurer of the Bank of Nova Scotia, the culmination of a 40-year career with the bank serving in a succession of senior investment banking, finance and treasury roles. Director of Dundee Wealth and Hamilton Capital Partners Inc. Former director of numerous Scotiabank subsidiaries including Scotia Discount Brokerage, Inc., Scotia Life Insurance Company, ScotiaMcLeod, Inc. and Scotia Cassels Investment Counsel Ltd. Qualifications include more than 40 years of financial industry experience as a bank executive dealing with finance, risk management, pension fund asset mix, investment strategies, treasury functions and international operations.

PIERRE CHOQUETTE [1,2,4*]
Corporate Director
Vancouver, British Columbia
Director since February 2008
Director of Methanex Corporation since 2003. Former CFO of Methanex, serving for 10 years and credited with globalizing the company's asset base. Former president and COO of Novacorp International and former president of Polysar Inc. Former chair of Gennum Corporation. Former director of Credit Lyonnais (Canada), Echo Bay Mines (U.S.), Stelco, Inc., TELUS Corporation, Terasen Gas, Inc., Terasen Pipelines and Terasen, Inc. Qualifications include 25 years of senior management experience concentrated in the natural gas and chemical industries, international experience in Belgium and Switzerland, and extensive board experience, including chairing human resources and governance committees and serving on the full range of board committees – notably two acquisition committees for large transactions.

MICHAEL GOLDBERG [1,2,3]
Economist, Ph.D.
Vancouver, British Columbia
Director since February 2008
Former Chief Academic Officer, Universitas 21 Global, an online graduate school initiated by Universitas 21, an international network of 20 research-intensive universities. Scholar in Residence at the Asia Pacific Foundation of Canada and Professor Emeritus and former Dean of the University of British Columbia's Sauder School of Business, with 37 years on the UBC faculty. Former member of the Deposit Insurance Advisory Committee to the federal Minister of Finance and of the B.C. Workers' Compensation Board Investment Committee. Director, Surrey City Development Corporation. Former director of Geovic Mining Corporation and Chair of the Human Resources and Compensation Committee. Former director of China Enterprises Limited, Redekop Properties Ltd., Vancouver Land Corporation, Catamaran Ferries International Inc., Imperial Parking Limited and Lend Lease Global Properties Fund, a Luxembourg-based fund investing in properties in Europe and Asia. Ph.D. (Economics) from the University of California at Berkeley. Qualifications include expertise in global real estate investments and urban infrastructure and experience on boards as a director serving on audit and compensation committees.

PETER K. HENDRICK [1,3]
Chartered Accountant, Chartered Financial Analyst
Toronto, Ontario
Director since October 2004
Former executive vice-president of investments and chief investment officer of Mackenzie Financial Corporation. Former vice-president and director of CIBC Wood Gundy Securities Inc. (now CIBC World Markets) in the Corporate Finance, Institutional Equity and Capital Markets divisions. Former lecturer at the Graduate School of Business Administration at Harvard University in the area of management and financial accounting relating to financial controls. Qualifications include experience in equities trading, due diligence reviews, securities regulation, derivatives, hedging, risk analysis and performance measurement from roles at Mackenzie Financial and CIBC World Markets, and audit experience from Ernst & Young.

NANCY HOPKINS [1,2*]
Lawyer
Saskatoon, Saskatchewan
Director since September 2008
Partner with the law firm McDougall Gauley LLP, specializing in business law and corporate governance. Chair of the University of Saskatchewan board of governors. Director of Cameco Corporation, chairing the nominating, governance & risk committee. Director of GrowthWorks Canadian Fund Ltd. and GrowthWorks Opportunity Fund Inc., chairing the audit committee. Former Chair of the Saskatoon Airport Authority, former chair of SGI Canada, a Saskatchewan Crown corporation, and of the Saskatchewan Police Commission. Appointed Queen's Counsel in 1992. Qualifications include more than 30 years of legal experience with expertise in taxation, governance and information technology, experience in government interface and as a director in multiple stakeholder organizations.

DOUGLAS W. MAHAFFY [1,4]
Corporate Director
Toronto, Ontario
Director since October 2009
Recently retired Chairman and chief executive officer of McLean Budden Ltd., an institutional money management firm. Former managing director and head of investment banking (Ontario) of Merrill Lynch Canada Inc., and former senior vice-president, finance and chief financial officer of Hudson's Bay Company. Current director at Methanex Corporation and former director at Stelco Inc. and Woodward's Ltd. Current chairman at Drumlane Capital, a personally owned investment firm. Qualifications include more than 25 years of investment industry, general management, and mergers and acquisitions experience.

ELAINE MCKINNON [1,3]
Certified General Accountant
Quispamsis, New Brunswick
Director since January 2009
CFO of Shift Energy Inc., an energy management software service provider in Saint John as well as CFO and COO of Brovada Technologies, a Saint John-based software provider. Served in senior positions with xwave, a division of Bell Aliant, Aliant Inc., Prexar LLC., Bruncor Inc., and as president and CEO of Datacor Atlantic Corp. Director of Efficiency NB, a Crown corporation that promotes energy efficiency in New Brunswick. Qualifications include more than 25 years of IT and telecommunications industry experience in key leadership roles, experience in mergers and acquisitions, corporate finance and human resources, and expertise as a Certified General Accountant.

HEATHER MUNROE-BLUM [1,4]
O.C., O.Q., Ph.D., F.R.S.C.
Principal (President) and Vice-Chancellor, McGill University
Montreal, Quebec
Director since March 2010
Former Vice-President (Research and International Relations), Dean, Professor, University of Toronto; Assistant Professor, McMaster University, York University. Current non-executive roles: Trudeau Foundation; Royal Bank of Canada; Association of American Universities; Conference of Montreal; Association of Universities and Colleges of Canada (Chair of the Standing Advisory Committee on Research); Conférence des recteurs et des principaux des universités du Québec; Canada Foundation for Innovation; and, the Science, Technology and Innovation Council of Canada. Previous non-executive roles include: Conference Board of Canada, Hydro One Inc.; Four Seasons Hotels & Resorts; Board of Trade of Metropolitan Montreal; Yellow Media Inc.; Alcan Inc.; Council of Canadian Academies; Montreal International; Medical Research Council of Canada; Genome Canada; Neurosciences Canada. Over 25 years of senior management experience concentrated in higher education, public policy and research and development. Has served as director on executive, human resources and compensation, governance, investment and finance committees across the public and private sectors.

RONALD E. SMITH [1,4]
Fellow, Institute of Chartered Accountants of Nova Scotia
Yarmouth, Nova Scotia
Director since November 2002
Former senior vice-president and CFO of Emera, Inc., a Halifax-based energy company. Former CFO of Aliant Telecom Inc. and its predecessor, Maritime Telephone & Telegraph Ltd. Member of AuRico Gold Inc. board of directors and member of the Accounting Standards Oversight Council. Former chair of the Board of Governors of Acadia University. Former partner Ernst & Young. Qualifications include extensive experience in investment, finance and compensation.

D. MURRAY WALLACE [1,4]
Fellow, Institute of Chartered Accountants of Ontario
London, Ontario
Director since April 2007
CEO of Granite Global Solutions, an insurance services company, since August 1, 2009. Chairman and CEO of Park Street Capital Corporation, a personally owned investment and corporate advisory firm. Former president of Axia NetMedia Corporation. Director of Terravest Income Fund and Critical Outcome Technologies Inc. Former director of Western Surety Ltd., Ontario Hydro, London Insurance Group, IPSCO Inc., Crown Life Insurance Co. and Queen's University School of Business (Advisory Committee), among others. Former Deputy Minister of Finance and Deputy Minister to the Premier for the Government of Saskatchewan. Qualifications include expertise as a chartered accountant, senior-level financial experience from five years as President of Avco Financial Services Canada Ltd. and eight years in executive roles with companies in the Trilon Financial Group, experience in public pension plan management and interface with government.

[1] Investment Committee
[2] Governance Committee
[3] Audit Committee
[4] Human Resources and Compensation Committee

* Indicates Chair position

TEN-YEAR REVIEW

For the year ended March 31 ($ billions)	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
CHANGE IN NET ASSETS										
Income[1]										
Investment income	**9.9**	15.5	16.2	(23.6)	(0.3)	13.1	13.1	6.3	10.3	(1.1)
Operating expenses	**(0.4)**	(0.3)	(0.2)	(0.2)	(0.1)	(0.1)	–	–	–	–
Net contributions	**3.9**	5.4	6.1	6.6	6.5	5.6	3.6	4.5	4.6	3.1
Increase in net assets	**13.4**	20.6	22.1	(17.2)	6.1	18.6	16.7	10.8	14.9	2.0

As at March 31 ($ billions)	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
INVESTMENT PORTFOLIO										
EQUITIES										
Canada	**14.2**	21.0	18.5	15.6	28.9	29.2	29.0	27.7	22.6	11.7
Foreign developed markets	**56.7**	50.8	46.2	40.4	47.5	46.1	32.7	20.9	9.3	5.4
Emerging markets	**10.6**	7.6	6.5	4.6	0.7	–	–	–	–	–
FIXED INCOME										
Non-marketable bonds	**23.6**	21.8	22.7	23.2	23.8	24.9	27.2	28.6	30.2	31.0
Marketable bonds	**18.0**	15.8	12.7	5.2	6.4	4.3	–	–	–	–
Inflation-linked bonds	**3.2**	3.9	4.4	4.1	4.7	3.8	4.0	–	–	–
Other debt	**8.8**	6.1	3.5	1.8	1.1	–	–	–	–	–
Money market securities[2]	**2.5**	2.3	1.7	(0.8)	–	0.4	0.6	3.1	7.7	7.2
Debt financing liabilities	**(2.4)**	(1.4)	(1.3)	–	–	–	–	–	–	–
REAL ASSETS										
Real estate[3]	**17.1**	10.9	7.0	6.9	6.9	5.7	4.2	0.8	0.7	0.3
Infrastructure	**9.5**	9.5	5.8	4.6	2.8	2.2	0.3	0.2	–	–
INVESTMENT PORTFOLIO[4]	**161.8**	148.3	127.7	105.6	122.8	116.6	98.0	81.3	70.5	55.6
PERFORMANCE (%)										
Rate of return (annual)[5]	**6.6**	11.9	14.9	-18.6	-0.3	12.9	15.5	8.5	17.6	-1.5

[1] Included in the Portfolio are certain specified CPP assets which were previously administered by the federal government and transferred to the CPP Investment Board over a period that began on May 1, 2004 and ended on April 1, 2007. Since April 1, 1999, the Portfolio has earned $64.5 billion in investment income net of operating expenses, which is comprised of $49.3 billion from the CPP Investment Board and $15.2 billion from assets historically administered by the federal government.

[2] Includes amounts receivable/payable from pending trades, dividends receivable, accrued interest and absolute return strategies.

[3] Net of debt on real estate properties.

[4] Excludes non-investment assets such as premises and equipment and non-investment liabilities.

[5] Commencing in fiscal 2007, the rate of return reflects the performance of the Investment Portfolio which excludes the Cash for Benefits portfolio.

MANAGEMENT TEAM

DAVID F. DENISON
President and Chief Executive Officer

MARK D. WISEMAN
Executive Vice-President, Investments

ANDRÉ BOURBONNAIS
Senior Vice-President and Head of Private Investments

JOHN H. BUTLER
Senior Vice-President, General Counsel and Corporate Secretary

GRAEME M. EADIE
Senior Vice-President, Real Estate Investments

MICHEL R. LEDUC
Senior Vice-President, Public Affairs & Communications

MARK G.A. MACHIN
President, CPPIB Asia Inc.

SAYLOR MILLITZ-LEE
Senior Vice-President, Human Resources

DONALD M. RAYMOND
Senior Vice-President and Chief Investment Strategist

BENITA M. WARMBOLD
Senior Vice-President and Chief Operations Officer

ERIC WETLAUFER
Senior Vice-President and Head of Public Market Investments

NICHOLAS ZELENCZUK
Senior Vice-President and Chief Financial Officer

LISA BAITON
Vice-President, Public Affairs

PETER BALLON
Vice-President and Head of Real Estate Investments – Americas

SUSAN BELLINGHAM
Vice-President, Business Planning and Enterprise Risk Management

ALAIN BERGERON
Vice-President and Head of Global Tactical Asset Allocation (GTAA)

ALAIN CARRIER
Managing Director – Europe and Head of Infrastructure

EDWIN D. CASS
Vice-President and Head of Global Corporate Securities

KEVIN CUNNINGHAM
Vice-President and Head of Global Capital Markets

RICHARD M. EGELTON
Chief Economist and Vice-President, Economic and Research Services

JIM FASANO
Vice-President and Head of Principal Investing

STERLING GUNN
Vice-President and Head of Quantitative Research

CHRIS HAWMAN
Vice-President, Integration Management

WENZEL R.B. HOBERG
Managing Director and Head of Real Estate Investments (Europe)

JAMES HUGHES
Vice-President, Investment Risk

JEFFREY HURLEY
Vice-President and Head of Technology

MARK JENKINS
Vice-President and Head of Private Debt

MALCOLM KHAN
Vice-President, Investment Operations

PIERRE LAVALLÉE
Vice-President and Head of Funds & Secondaries

R. SCOTT LAWRENCE
Vice-President and Head of Relationship Investments

JEAN-FRANÇOIS L'HER
Vice-President and Head of Investment Research

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Managing Director and Head of Real Estate Investments (Asia)

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Vice-President and Head of Short Horizon Alpha

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Vice-President and Head of Internal Audit

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